ANNUAL REPORT 2004

COMMITTED TO MAINTAINING A HEALTHY BALANCE

LOTO QUÉBEC

LOTO-QUÉBEC'S MISSION

Loto-Québec's mission is to assure the systematic and effective operation of games of chance in the province. Created in 1969 to implement a public lottery, the Corporation has since been entrusted by its shareholder, the Government of Québec, with various new mandates that have seen it considerably diversify its activities over the years.

In addition to a State lottery, the Corporation now operates three casinos, related restaurant and hotel services, a video lottery network, along with network bingo activities. The Corporation is also active in international markets, offering products and services developed within its various areas of competence.

Loto-Québec returns the fruits of its activities in their entirety to the Government and to the provincial community at large. In recognition of its social responsibilities, the Corporation finances a program for the prevention and treatment of compulsive gambling, while taking its own actions to combat dependency on gaming. Moreover, the Corporation manifests its social commitment in numerous other ways, including through its financial support of community action and its sponsorship program that generates significant economic spin-offs throughout Québec.

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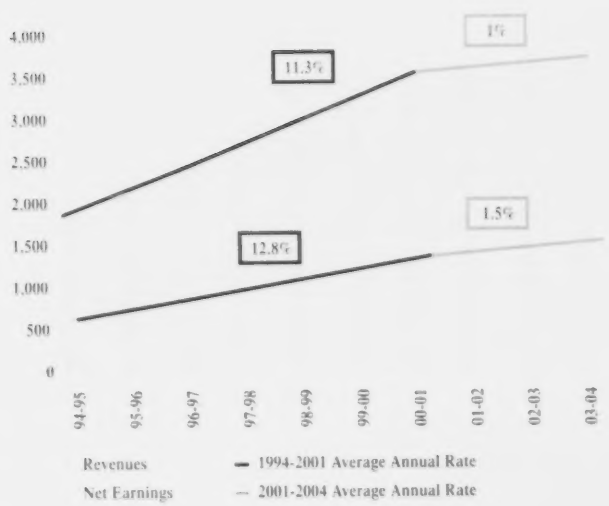
CONSOLIDATED FINANCIAL RESULTS OVER 10 YEARS

(in millions of dollars)



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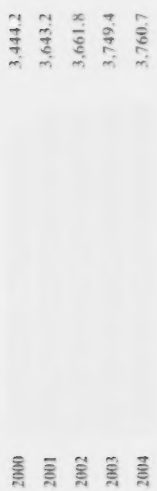
FINANCIAL HIGHLIGHTS

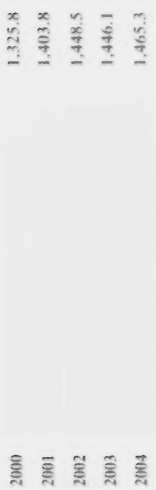
AS AT MARCH 31
(in thousands of dollars)

	2004	2003	% VARIATION
Total Revenue	**3,760,743**	**3,749,410**	0.3
Lotteries	**1,812,785**	**1,834,423**	-1.2
Casinos	**728,906**	**747,463**	-2.5
Restaurants	**79,617**	**80,714**	-1.4
Lodging	**12,447**	**12,501**	-0.4
Video Lotteries	**1,128,847**	**1,076,943**	4.8
Bingo	**36,929**	**37,605**	-1.8
Multimedia	**642**	**927**	-30.7
Inter-Company Transactions	**(39,430)**	**(41,166)**	-4.2
Prizes awarded–lotteries	**962,692**	**953,225**	1.0
Prizes awarded–bingo	**16,734**	**17,036**	-1.8
Gross profit	**2,297,280**	**2,290,756**	0.3
Net income	**1,465,250**	**1,446,074**	1.3
Dividends	**1,493,000**	**1,311,000**	13.9
Other amounts contributed to the Québec and Canadian Governments	**242,268**	**273,299**	-11.4
Total assets	**1,010,401**	**989,831**	2.1
Shareholder's equity	**134,717**	**234,735**	-42.6

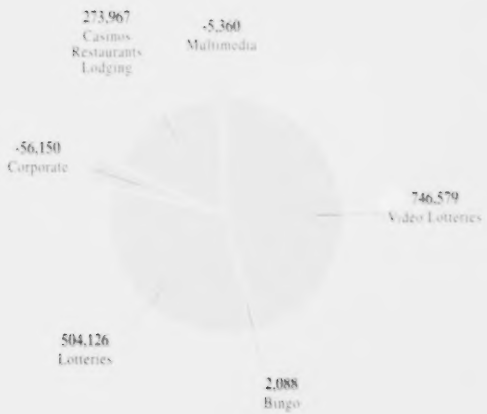
TOTAL REVENUES
(in millions of dollars)



NET INCOME
(in millions of dollars)



DISTRIBUTION OF CONSOLIDATED NET INCOME
(in thousands of dollars)



Last September, halfway through the fiscal year summarized in this report, the Government of Québec entrusted me with the direction of Loto-Québec. I gladly accepted the challenge with the knowledge that I could count on the full support of a team of highly dedicated and competent individuals. Indeed, upon my arrival, I found an organization fuelled by intense motivation and in possession of all the means necessary to continue to succeed. I would like to take this opportunity to thank Mr. Robert Crevier for the seven months he served so ably as acting President of Loto-Québec, a Corporation that has been an integral part of Québec society for three and a half decades.

THE YEAR'S RESULTS

Once again this past fiscal year, Loto-Québec succeeded in maintaining the level of its total and net income, actually posting slight increases of 0.3% and 1.3% respectively. In addition, the Corporation was able to reduce operating expenses by 1.2%. While these results are certainly positive, we are also mindful of a concerning reality. That is that, with the exception of video lotteries, all of our individual activity sectors have posted a decline in their revenue over the course of the past year. The most disconcerting results are those of the Casino de Montréal, which, despite a range of sustained efforts, has experienced a drop in visitor traffic (-2.5%), in revenues (-3.9%), as well as in its net earnings (-6.9%).

The slight increase in our consolidated revenues and net income during the past fiscal year is in line with our rate of growth in recent years, a rate which is in sharp contrast with the far more positive trends of the 1990s.

In fact, all of our activity sectors have now reached their maturity phase, a phenomenon which is also affecting Canada's other lottery corporations. As such, it is evident that Loto-Québec has entered into a period of decelerating development. Given this context, maintaining the Corporation's net earnings without increasing overall game offerings has become a formidable challenge. And over the past fiscal year, finding effective means to meet this challenge while focusing more intensely on the subject of compulsive gambling was our prime preoccupation.

2004-2007 DEVELOPMENT PLAN

When I was appointed President of Loto-Québec, the Government requested that I carefully review the development plan submitted by the Corporation at the end of 2002, and that I present a new plan that would devote particular attention to the social consequences of our game offerings. In response to this directive, and after extensive research, analysis and reflection, we developed the new three-year plan made public this past May 6.

The 2004-2007 Development Plan was established primarily to address two fundamental areas of concern with respect to Loto-Québec's recent evolution. As mentioned earlier, the first relates to the sudden decline in the rate of growth of the Corporation's revenues and profits that started to become apparent as of the 2000s. The other pertains to the public's growing preoccupation with the social costs of gaming. Although the most recent studies have indicated a stabilization in the number of individuals experiencing dependency problems, the compulsive gambling phenomenon and the negative perceptions it engenders are threatening to erode the social consensus that has enabled the development of Loto-Québec over the past 35 years.

The Development Plan submitted to the Government proposes the following three major strategic initiatives aimed at assuring a better balance between our economic mission and our social responsibilities:

- limiting access to video lottery terminals through a 31% reduction in the number of available sites over three years and the concentration of the majority of terminals thus recuperated at five gaming centres to be controlled by Loto-Québec
- creating an organization independent of the Corporation and the Government and dedicated to compulsive gambling research, awareness, prevention and treatment

– implementing a long-term solution to the Casino de Montréal's problems based on an evaluation of the respective merits of two possible hypotheses: expanding the existing facility on Île Notre-Dame, or establishing a new gaming house at the heart of an integrated recreational-tourist complex to be located at the Peel Basin.

The implementation of the proposed Development Plan would result in a 3.6% reduction in Québec's total game offerings. On the Island of Montréal, however, the reduction would be in the order of 8.5%, regardless of which scenario is ultimately adopted for the Casino.

STRATEGIC PLANNING INITIATIVE

In addition to our comprehensive 2004-2007 Development Plan, the past fiscal year saw the implementation of a rigorous strategic planning initiative. As part of this initiative, each of the organization's operating units underwent a process of clarifying its mission, identifying the issues and challenges confronting it, evaluating its strengths and weaknesses, defining its objectives and determining an action plan.

Thanks to this exercise, each corporate sector is now better prepared to confront the challenges posed by the new era of consolidation into which we have entered. Moreover, each unit is now more cognizant of the measures to take in order to optimize business processes, reduce operating costs and contribute to improving the profitability of all our commercial activities.

The strategic planning initiative was implemented in accordance with four fundamental objectives set forth by the Government which will serve to guide our actions over the coming years:

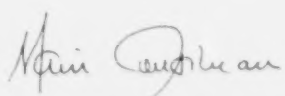
- reduce the social costs associated with games of chance to a minimum and adopt new measures to combat compulsive gambling
- improve the Corporation's effectiveness and performance so as to maintain the level of net earnings remitted annually into public coffers
- contribute to the development and success of the tourism industry, working hand-in-hand with the principal players in the sector
- refrain from increasing overall game offerings

ACKNOWLEDGEMENTS

In conclusion, I would like to take this opportunity to thank all of our employees for their outstanding dedication and professionalism over the course of the past fiscal year. I would also like to thank the members of the Board of Directors for the tremendous support they have shown me since I assumed the Presidency.

Furthermore, I would like to extend my gratitude on behalf of the entire Corporation to Ms. Christiane Bois, Mr. Joseph Benarrosh and Mr. Stephen F. Reitman, all of who left the Board during the past year. At the same time, I was pleased to welcome our new Board members — Ms. Nancy Arbour, Ms. Solange Dugas, Me Serge LeBel, Mr. Marc G. Bruneau and Mr. Melvin Nathan Hoppenheim.

Off to an excellent start with the preparation of our Development Plan and the major launch of the new version of *Lotto 6/49*, the current fiscal year holds tremendous promise. And whatever the Government decides with respect to the proposals contained in our Development Plan, it can be assured of our full, timely and dedicated collaboration.



ALAIN COUSINEAU
Chairman, President and Chief Executive Officer

BOARD OF DIRECTORS

ALAIN COUSINEAU, Montréal
Chairman of the Board
President and Chief Executive Officer – Loto-Québec

LYNNE ROITER, LL.L., Montréal
Corporate Secretary
Vice-President, Legal Affairs – Loto-Québec

MARC G. BRUNEAU, Montréal
Vice-President
GBC Asset Management Inc.

ROBERT CREVIER, CA, Mont-Tremblant
Management Consultant

Me SERGE LEBEL, Québec
Brouillette Charpentier Fortin S.E.N.C.

NANCY ARBOUR, Îles-de-la-Madeleine
Corporation de développement portuaire de
l'Anse de l'Étang-du-Nord

SOLANGE DUGAS, Saint-Laurent
GB Micro

MELVIN NATHAN HOPPENHEIM, Montréal
Locations Michel Trudel inc.
Mels Cité Deux cinémas ltée

FROM LEFT TO RIGHT
Mr. Melvin Nathan Hoppenheim, Ms. Lynne Roiter, Mr. Alain Cousineau, Mr. Robert Crevier, Ms. Solange Dugas, Mr. Marc G. Bruneau, Me Serge LeBel, Ms. Nancy Arbour.

CORPORATE STRUCTURE

YVES SÉGUIN
MINISTER OF FINANCE

BOARD OF DIRECTORS

ALAIN COUSINEAU
CHAIRMAN
PRESIDENT AND CHIEF EXECUTIVE OFFICER

LYNNE ROITER
CORPORATE SECRETARY
VICE-PRESIDENT, LEGAL AFFAIRS

MARIE-CHRISTINE TREMBLAY
DIRECTOR, CORPORATE SECRETARIAT

NICOLE BEAULIEU
MANAGING DIRECTOR
MISE SUR TOI FOUNDATION

JOY GOODMAN
DIRECTOR, LEGAL AFFAIRS

JACQUES DUBOIS
CORPORATE DIRECTOR, INTERNAL AUDITING

PIERRE BIBEAU
SENIOR CORPORATE VICE-PRESIDENT, COMMUNICATIONS AND PUBLIC AFFAIRS

MARCEL CROUX
SENIOR VICE-PRESIDENT, CORPORATE AFFAIRS

JEAN ROYER
SENIOR VICE-PRESIDENT, COMMERCIAL AFFAIRS

GILLE DUFOUR
SENIOR VICE-PRESIDENT, FINANCIAL AFFAIRS

SIMON BRODEUR
SENIOR VICE-PRESIDENT, MAJOR STRATEGIC INITIATIVES

LUCIE LAMOUREUX
CORPORATE DIRECTOR, SPONSORSHIP AND SPECIAL EVENTS

JACQUES PLANTE
CORPORATE VICE-PRESIDENT, HUMAN RESOURCES

GÉRALD MOULE
CORPORATE VICE-PRESIDENT, FINANCE AND ADMINISTRATION

MARTINE DORVAL
DIRECTOR, COMMUNICATIONS

CORPORATE VICE-PRESIDENCY, INFORMATION TECHNOLOGIES

JEAN-CLAUDE CHAMPAGNE
CORPORATE VICE-PRESIDENT, REAL ESTATE

CLAUDE LECLERC
DIRECTOR, PUBLICATIONS

MICHEL GOUGEON
VICE-PRESIDENT, CORPORATE SECURITY

YVAN COSSETTE
CORPORATE VICE-PRESIDENT, STRATEGIC PLANNING

JEAN-PIERRE ROY
DIRECTOR, MEDIA RELATIONS

BERNARD SÉGUIN
MANAGING DIRECTOR, NTER TECHNOLOGIES

MARCO LABELLE
MANAGING DIRECTOR, CASINO MUNDIAL

ROBERT AYOTTE
PRESIDENT OF OPERATIONS, LOTTERIES

CLAUDE TRUDEL
PRESIDENT OF OPERATIONS, LA SOCIÉTÉ DES LOTERIES VIDÉO DU QUÉBEC
LA SOCIÉTÉ DES BINGOS DU QUÉBEC

CLAUDE POISSON
PRESIDENT OF OPERATIONS, LA SOCIÉTÉ DES CASINOS DU QUÉBEC
RESTO-CASINO

FRANCE FORTIN
EXECUTIVE ASSISTANT TO THE PRESIDENT

NATHALIE RAJOTTE
MANAGING DIRECTOR, INGENIO

SIMON PATENAUDE
MANAGING DIRECTOR, MARKETING

MICHEL HUPÉ
MANAGING DIRECTOR, LA SOCIÉTÉ DES BINGOS DU QUÉBEC

DANIEL BISSONNETTE
VICE-PRESIDENT, RESTO-CASINO

MICHEL ST-GERMAIN
VICE-PRESIDENT, MARKETING
LA SOCIÉTÉ DES CASINOS DU QUÉBEC

MANAGING DIRECTION, SALES AND BUSINESS RELATIONS DEPARTMENT

KEVIN TAYLOR
GENERAL MANAGER, HILTON LAC-LEAMY

YVES DEVIN
GENERAL MANAGER, CASINO DE MONTRÉAL

FRANÇOIS TREMBLAY
GENERAL MANAGER, CASINO DE CHARLEVOIX

MICHEL BELLEY
GENERAL MANAGER, CASINO DU LAC-LEAMY

Lotteries

1 039 WINNERS WELCOMED AT LOTO-QUÉBEC OFFICES DURING THE YEAR

677 PRIZES OF **$50,000** AND OVER WON

OVER **400,000** CHEQUES ISSUED TO WINNERS

IN CONSTANT PURSUIT OF INNOVATION

Thanks to the outstanding and internationally recognized expertise and creativity of its employees, the Lottery sector continued its tradition of product innovation during fiscal 2003-2004. With total sales of $1.813 billion, the sector came close to achieving its record performance of the previous year, and all indications point to equally positive results for 2004-2005. In fact, given the numerous projects currently in the works, the sector may even see a return to a period of growth.

ONLINE GAMES

Online games generated sales during the past fiscal year identical to those posted the previous year. In the case of *Super 7*, sales this past year were even more remarkable considering that the results in 2002-2003 were already at an exceptional level. That year, the game took advantage of a jackpot of record proportion. Moreover, sales levels were maintained in 2003-2004 thanks to a vigorous bonus prize strategy.

The past fiscal year saw the addition of a brand-new product in the online game category — *L'ours chanceux*. Given its distinctive positioning and original launch, the successful introduction of *L'ours chanceux* helped compensate for the decline in sales of *Lotto 6/49*. Slowly losing speed over the past few years, *Lotto 6/49* is expected to rebound in 2004-2005 thanks to its comprehensive revamping — the first such makeover since the game's initial release in 1982. Officially launched in May 2004, the new *Lotto 6/49* is the product of extensive research and intensive planning and preparation.

INSTANT LOTTERIES AND TELEVISED GAMES

While considerable effort was devoted to promoting consumer interest in instant lotteries, sales of these products were nevertheless down somewhat during the past fiscal year. In addition to 28 editions of the continuously available *Loto-Bingo*, *Mots Cachés*, *Le 7 Chanceux* and *Gagnant à Vie* games, a total of 49 new instant products were introduced incorporating a host of innovative game formulas, themes and ticket formats. Measures were also developed to improve sales of standard and entertainment-type instant games. Moreover, the Corporation is expecting the new downloading option to stimulate sales of its multimedia games.

While televised instant games showed a decline — a reflection of Loto-Québec's decision to concentrate more on its tele-active lotteries — *Roue de Fortune chez vous*, an adapted version of the traditional *Roue de Fortune*, has turned out to be a success. Indeed, the game's new formula has served to significantly rekindle interest in this proven game concept.

Offered in the fall, *La Bonne Étoile* became the newest member of the Corporation's tele-active family of games, featuring a humorous quiz-type formula distinguished by its originality. For its part, *La Poule aux Œufs d'OR* saw the addition of a $5 weekly ticket, with a $10 *Spécial Gala* edition also proving to be highly popular. In fact, all of Loto-Québec's televised lotteries enjoyed excellent viewership, including *Célébration*, which posted record sales this past year.

SPORTS BETTING

With the addition of boxing, tennis, golf and auto racing, the variety of Loto-Québec's sports betting games was significantly enhanced. The past fiscal year also marked the launch of *Pronostik*, North America's first sports lotto. Furthermore, the Corporation will be initiating a new service to subscribe to sports betting programs during fiscal 2004-2005.

DRAWS AND CUSTOMER SERVICE

The Lottery sector owes its public credibility first and foremost to the integrity of its draws. As such, all operations are rigorously controlled and governed by total transparency. This adherence to the most stringent standards of integrity, however, is no obstacle to product innovation, as clearly demonstrated by such new concepts as *La Roue de Fortune chez vous*, *La Bonne Étoile* and the *Spécial Gala* edition of *La Poule aux Œufs d'OR*. The outstanding success of these products is directly attributable to the close collaboration between the Corporation and the producers and broadcasters from the very first stages of the program development process.

With the number of winners of major prizes growing each year, 2003-2004 was certainly no exception. This past fiscal year, no fewer than 1,039 lucky winners were welcomed to the Millionaire's Lounge at Loto-Québec's headquarters in Montréal and at its offices in Québec City. Including numerous group ticket holders, these winners shared a total of 677 prizes of $50,000 or more. In all, the Lottery sector issued over 400,000 cheques to winners during the course of the year, and through the implementation of a series of new measures, these winners received their cheques in less time.

LOTTERY SALES NETWORK

Loto-Québec pursued its efforts during the year to adapt to the new realities within the retail sales sector. For example, the Corporation continued to refresh its image at points of sale by installing some 1,350 illuminated signs. Modern and attractive in appearance, these units serve to better identify locations offering Loto-Québec products.

As part of its efforts to adapt to these ever changing sales environments, the Corporation also implemented a new layout concept within a major chain of convenience stores. This concept enhances Loto-Québec's visibility at these outlets by making use of a prize display unit topped by the new illuminated logo. Moreover, work is underway on a new lottery counter prototype that will integrate space for publicity, the sales terminal, a prize display, and a ticket display case.

Several stores affiliated with major accounts and located in shopping malls began selling lotteries during the past year. On the subject of major accounts, thanks to the exceptional level of support offered, the *Célébration 2004* lottery posted record sales. And, subsequent to a Call for Tenders, 10 new wholesalers were contracted to serve districts that had become vacant.

Loto-Québec's financial operations related to lottery sales continued to be the focus of careful monitoring to assure their total effectiveness, precision and integrity. As part of this process, an initiative was launched aimed at optimizing profitability within all lottery-related sectors. This initiative is continuing throughout the current fiscal year in parallel with a review of the wholesaler credit policy and the implementation of new procedures for the wholesalers' use of their new portable computers. A series of controls will also be instituted governing the new subscription service for sports betting programs.

PARTNERSHIP WITH NON-PROFIT ORGANIZATIONS

The Corporation's commitment to non-profit organizations (NPOs) via its *Lotomatique* subscription service was reinforced with agreements concluded with 104 new organizations, bringing the total number of NPOs accredited to sell these subscriptions to 1,369. For these NPOs, their involvement with *Lotomatique* represents a valuable means of financing their activities within the community. To help support these efforts further, the Corporation developed various new tools, including a reminder form now being sent out to *Lotomatique* subscribers who have not renewed their subscriptions. In addition, the official *Lotomatique* renewal form underwent some changes to make it simpler to complete.

During the course of the past year, a new sales kiosk prototype was installed as well for the benefit of NPOs operating in shopping malls. Featuring interchangeable modules that offer great flexibility, the new kiosk facilitates the use of the game terminal, while offering improved signage for enhanced visibility and an overall design that can be readily adapted to specific public events.

COMPLIANCE WITH THE LAW

Loto-Québec pursued its efforts on multiple fronts to assure that the law prohibiting the sale of lotteries to minors is respected. These efforts included weekly reminders issued to retailers, reinstatement of the point of sale visitation program, and the publication of a column on the subject in each edition of *VIP*, the information bulletin distributed to retailers.

PERSPECTIVES

The Lottery sector is currently confronted with a dual challenge. On the one hand, it must adapt its existing products to ever-changing consumer preferences. At the same time, it must introduce new games able to effectively respond to evolving market trends. The revamping of *Lotto 6/49* and launch of certain new lotteries, including multimedia games, are good examples of some of the efforts undertaken in this regard.

With consumers having considerably modified their buying habits, Loto-Québec is also concentrating on adapting its distribution network to the new realities within the retail sales sector, the fundamental objective being to maintain the sector's growth and net income. The Corporation is confident about its ability to do so through its continuing commitment to innovation.

COMMISSIONS TO RETAILERS

(in millions of dollars)

1999-2000	121.3
2000-2001	124.7
2001-2002	123.2
2002-2003	125.9
2003-2004	**123.6**

LOTTERIES

AS AT MARCH 31
(in thousands of dollars)

	SALES 2004	SALES 2003	% VARIATION	PRIZES AWARDED 2004	PRIZES AWARDED 2003	% VARIATION
Online Lotteries						
Lotto 6/49	369,042	379,224	-2.7%	180,834	182,033	-0.7%
Super 7	334,367	335,019	-0.2%	200,581	187,212	7.1%
Québec 49	62,632	62,312	0.5%	29,438	29,287	0.5%
Extra	155,498	153,252	1.5%	69,431	68,428	1.5%
Banco	120,031	121,577	-1.3%	59,060	59,846	-1.3%
La Quotidienne	29,450	27,641	6.5%	13,253	12,439	6.5%
L'ours chanceux	8,675	–	–	4,342	–	–
Subtotal	1,079,695	1,079,025	0.1%	556,939	539,245	3.3%
Instant Lotteries						
Regular	153,104	168,960	-9.4%	84,770	93,015	-8.9%
Entertainment	385,560	391,640	-1.6%	208,706	214,872	-2.9%
Televised	13,871	22,790	-39.1%	7,618	12,784	-40.4%
Multimedia	9,604	12,620	-23.9%	4,988	6,625	-24.7%
Subtotal	562,139	596,010	-5.7%	306,082	327,296	-6.5%
Traditional Lotteries						
La Mini	13,398	13,510	-0.8%	5,895	5,945	-0.8%
Teleactive	56,401	42,960	31.3%	34,755	22,936	51.5%
Special Editions	54,742	56,376	-2.9%	32,627	31,530	3.5%
Subtotal	124,541	112,846	10.4%	73,277	60,411	21.3%
Sports Betting	46,410	46,542	-0.3%	26,394	26,273	0.5%
Total	1,812,785	1,834,423	-1.2%	962,692	953,225	1.0%

FINANCIAL SUPPORT TO NPOs

	NUMBER OF NPOs	IN MILLIONS OF DOLLARS
1999-2000	917	10.067
2000-2001	1,058	10.347
2001-2002	1,174	10.179
2002-2003	1,282	10.469
2003-2004	**1,369**	**9.923**

DISTRIBUTION OF RETAILERS AND TERMINALS BY REGION

AS AT MARCH 31, 2004

	NUMBER OF RETAILERS	%	NUMBER OF TERMINALS	%
Montréal and Northwestern Québec	3,522	33.4	2,860	34.0
Montréal and Southeastern Québec	3,643	34.6	2,976	35.4
Québec City and Eastern Québec	3,377	32.0	2,568	30.6
Total	10,542	100.0	8,404	100.0

DISTRIBUTION OF RETAILERS BY BUSINESS CATEGORY

AS AT MARCH 31, 2004

	NUMBER	%
Tobacco and Convenience Stores	5,062	48.0
Food	2,033	19.2
Financial Institutions	523	5.0
Other Service Businesses	1,569	14.9
Pharmacies	845	8.0
Miscellaneous	326	3.1
Itinerant Sellers	61	0.6
Kiosks	123	1.2
Total	10,542	100.0

Casinos Restaurants and Hotels

ALL ESTABLISHMENTS NOW NON-SMOKING

MORE THAN 55 MILLIONS VISITORS OVER 10 YEARS AT THE CASINO DE MONTRÉAL

A TOTAL OF $14.4 [illegible] PURCHASES OF GOODS AND SERVICES

A NEW APPROACH TO MANAGEMENT

Loto-Québec's Société des casinos du Québec (SCQ) subsidiary oversees the operations of the province's three casinos —the Casino de Montréal, the Casino de Charlevoix, and the Casino du Lac-Leamy. For its part, the Corporation's Resto-Casino subsidiary is responsible for the management of all bars and restaurants located in the gaming houses and for the operation of the Hilton Lac-Leamy Hotel. During the past fiscal year, the SCQ and Resto-Casino generated total revenues of $728.9 million and $92.1 million respectively.

Despite an overall slowdown within Québec's tourism sector and a 4% decline in motorcoach visitors last year, the SCQ succeeded in boosting its revenues originating from its tourist clientele by 13.6%. The decrease in motorcoach visitors was most evident at the Casino du Lac-Leamy, where the SARS outbreak of last summer resulted in numerous cancellations by groups from Ontario and the United States.

ASSUMING SOCIAL RESPONSIBILITY

The Corporation's three casinos became non-smoking establishments during fiscal 2003-2004, a move that places them in the avant-garde of the North American gaming industry where most gaming houses have yet to adopt this measure. While this smoke-free policy responds to the expressed wishes of a large majority of Loto-Québec's gaming clientele and workforce, comfortable smoking lounges equipped with effective ventilation systems have nevertheless been made available for those who wish to indulge.

In recognition of its social responsibilities on another front, the SCQ actively pursued its efforts to prevent compulsive gambling and assist those showing signs of a dependency. As part of these endeavours, the subsidiary implemented an awareness program focused on identifying and dealing with situations of distress and designed for its personnel who are in direct contact with casino patrons. More than 2,500 employees have received this specialized training prepared by the Mise sur toi Foundation under the theme of *People Who Make a Difference*.

A MAJOR CONTRIBUTOR TO SOCIO-ECONOMIC DEVELOPMENT

Once again this past year, the SCQ has lent a great deal of support to community and regional development province-wide through its sponsorship of major local, regional and international events. Among the many events sponsored were the Bal de Neige, the Hot Air Ballooning Festival, the Canadian Tulip Festival, the Charlevoix International Rally, Rêves d'automne, the Domaine Forget International Festival, the Air Canada Grand Prix, and the Montréal Molson Indy.

Loto-Québec's three casinos and their related food and beverage and hotel services generate significant spin-offs that contribute in a major way to the economic vitality of the province. For example, during the past fiscal year, the SCQ alone acquired goods and services valued at close to $98 million, not including the construction and renovation contracts awarded. For its part, Resto-Casino is also a major buyer from suppliers operating in the Québec agro-food sector, having purchased close to $46 million worth of goods.

MAKING MANAGEMENT MORE CONSULTATIVE

For more than two years now, the SCQ and Resto-Casino have been applying an effective new management approach that is both more structured and more consultative. In line with this approach, the subsidiaries have undertaken a thorough review of their operating methods, established comprehensive business plans, and developed effective strategies to better mobilize personnel.

During the past year, a multitude of meetings were held with managers and employees to help them better understand the mission, values, orientations and objectives of their organization. In all, the management and staff of the SCQ and Resto-Casino received some 13,600 days of training during fiscal 2003-2004 alone.

CASINO DE MONTRÉAL

A 2.5% reduction in visitor traffic resulted in a $19.3 million decline in the Casino de Montréal's revenues during the past fiscal year. This 3.9% drop in earnings also had an impact on its net income, which was down by 6.9%.

The past fiscal year marked the Casino's 10th anniversary. With over 55 million visitors having passed through its doors since its opening in 1993, the Montréal gaming house on Île Notre-Dame continues to be a principal contributor to the city's tourism industry.

The Casino de Montréal saw its motorcoach group visits increase by 5.7% last year as compared to the previous fiscal year, testifying to the success of its promotional efforts within tourist markets both inside and outside the province. The Casino has also made it its practice to underline important events such as the Chinese New Year, the Super Bowl and Valentine's Day. Moreover, much to the delight of its clientele, the gaming house now offers three new games — *Casino War*, *Online Roulette* and *Wheel of Fortune*.

Over the course of the past year, the Cabaret du Casino presented 13 dazzling productions. Of the 437 performances staged for enthusiastic audiences totalling more than 185,000, 260 were evening shows and 177 matinees. These numbers attest to the exceptional quality of the year's entertainment and entertainers alike.

Finally, fiscal 2003-2004 marked the renewal of collective agreements with three of the Casino de Montréal's principal employee groups. All these agreements will remain in effect for a period of four years.

CASINO DE CHARLEVOIX

The Casino de Charlevoix enjoyed a very good year in fiscal 2003-2004, posting a 2.3% increase in revenues as compared to the previous reporting period. These results can be attributed in part to the establishment's sustained efforts to attract an ever-growing tourist clientele. The positive performance is also the result of a number of successful endeavours, including the organization of various tournaments and joint initiatives with the Fairmont Le Manoir Richelieu Hotel.

The Fairmont Le Manoir Richelieu and Casino de Charlevoix were the recipients of several distinctions over the course of the year, including the following:

- the prestigious *Four Diamond* rating awarded to *Le Charlevoix* Restaurant and the Manoir Richelieu by the CAA and AAA automobile associations
- the *Grand Prix pour l'Hébergement (150+ rooms)* presented to the Hotel and the *Grand Prix de la gastronomie* awarded to *Le Charlevoix* Restaurant by Tourisme Québec
- the *Award of Excellence* presented to *Le Charlevoix* by *Wine Spectator* Magazine for the quality of its wine list
- the *Carte d'or* awarded to *Le Charlevoix* and *Le Saint-Laurent* Restaurants by the Société des alcools du Québec for their excellent wine selections

CASINO DU LAC-LEAMY

The Casino du Lac-Leamy closed the past year with total annual revenues at essentially the same level as during the previous year. The Gatineau gaming house welcomed its 25 millionth visitor in autumn 2003 and posted a record attendance of 20,009 visitors on February 14, 2004.

The Casino actively pursued its promotional initiatives within Ontario markets during the year while adopting the designation of "Complexe du Lac-Leamy". This new signature is designed to underline the fact that the Casino is at the heart of a complete resort centre encompassing a hotel, conference centre and theatre. It is taking full advantage of its integration in this diversified infrastructure so suitably adapted to the needs of the region.

For its part, the Théâtre du Casino presented 30 first-rate productions during the year. Of the 251 individual performances staged to combined audiences of some 150,000, 136 were evening shows and 115 were matinees.

TOTAL REVENUES

AS AT MARCH 31
(in millions of dollars)

	2004	2003	% VARIATION
Casino de Montréal	**472.4**	491.8	-3.9%
Casino de Charlevoix	**47.9**	46.8	2.3%
Casino du Lac-Leamy	**208.6**	208.9	-0.1%
Total	**728.9**	747.5	-2.5%

WELL-DESERVED DISTINCTIONS

The outstanding dynamism and professionalism of Resto-Casino personnel were recognized in numerous ways during the past year. The Casino du Lac-Leamy's *Le Baccara* and the Casino de Montréal's *Nuances* Restaurants were both the recipients for the fourth consecutive year of the prestigious *Five Diamond* rating presented by the CAA and AAA automobile associations. The hallmark of high gastronomy, the *Five Diamond* rating is among the most coveted distinctions awarded within the industry, with only seven restaurants in Canada (including three in Québec) having earned the rating. The *Nuances* was also the recipient of the *Best of Award of Excellence* in 2003, presented by *Wine Spectator* Magazine in recognition of its exceptional wine list.

At the Lac-Leamy complex, the Hilton Lac-Leamy earned the CAA/AAA's *Four Diamond* rating last year for the superior quality of its accommodations. The Hotel was also awarded the *Five Star* distinction by Tourisme Québec. Finally, still under the Resto-Casino banner, some 10 talented employees were recognized during the year with honourable mentions or first prizes during various culinary competitions.

PERSPECTIVES

The ongoing review of management procedures is designed to provide the SCQ and Resto-Casino's establishments with the levers required to enable them to successfully fulfill their missions and assure the Corporation's shareholder of the expected level of net earnings. There are five such levers, which constitute the foundation of the strategic plan for the coming years:

- employee alignment with the directions and objectives of the organization
- refocusing on the customer
- renewal of entertainment offerings
- optimization of operating methods
- orientation and training of new personnel

The coming year will see the implementation of a new training program within the two subsidiaries designed for both management and staff. The program will feature two fundamental areas of focus—employee mobilization around the quality of customer service, and the process of continuous improvement based on the *Kaizen* approach.

Video Lotteries

INTERNATIONAL RECOGNITION FOR OUR EFFORTS IN THE PREVENTION OF EXCESSIVE GAMBLING

THE LOWEST NUMBER OF TERMINALS PER CAPITA IN CANADA

$276.8
MILLION PAID IN COMMISSIONS TO RETAILERS

301
SITES CLOSED IN 2003-2004

A **23.1%** REDUCTION IN THE NUMBER OF SITES OVER **7** YEARS

REDUCING ACCESSIBILITY AND RENEWING EQUIPMENT

Posting revenues of $1.129 billion as at March 31, 2004, the Société des loteries vidéo du Québec (SLVQ) recorded net earnings of $746.6 million during the past fiscal year, while paying out $276.8 million in commissions to retailers. At the end of 2003-2004, the subsidiary's network was comprised of 14,293 video lottery terminals (VLTs) installed at 3,362 sites licensed by the Régie des alcools, des courses et des jeux (RACJ).

VOLUNTARY VLT WITHDRAWAL PROGRAM

The closing of 301 VLT sites during the past fiscal year can be attributed primarily to the success of the voluntary VLT withdrawal program announced in the fall of 2003. Having ended on March 31, 2004, this program called for the payment of financial compensation equivalent to one year's commissions to specific retailers who agreed to part with all or some of their terminals.

The 559 VLTs recovered as part of this program were installed at existing sites that had not reached the maximum number of terminals authorized by the RACJ. During the past year, 203 sites shut down in line with the program, and 98 closed for various other reasons. Accessibility to the VLT network has declined continuously since 1997, with the reduction of 1,008 sites representing a decrease of 23.1% over seven years. Today, among the eight Canadian provinces where VLTs are in operation, Québec (along with Alberta) has the lowest number of units per capita.

NUMBER OF SITES AS AT MARCH 31 OF EACH YEAR

	1997	1998	1999	2000	2001	2002	2003	2004
Sites	4,370	4,193	4,175	4,141	4,085	3,828	3,663	3,362

NUMBER OF TERMINALS AND SITES PER 1,000 RESIDENTS *

	AL**	SASK**	MAN	QUÉ	NB***	NS***	NFLD***	PEI***
VLTs	1.9	3.7	4.5	1.9	3.4	4.0	5.0	2.9
Sites	0.4	0.7	0.5	0.5	0.9	0.6	1.1	0.6

* *There are no video lotteries in Ontario and British Columbia.*
** *As at March 31, 2003.*
*** *As at February 28, 2004.*

VLT RENEWAL INITIATIVE ALMOST COMPLETE

Launched in January 2003, the program to replace the Corporation's VLT network proceeded at a good pace during the past fiscal year, with 97% of units changed as at March 31, 2004. These new terminals are equipped with various features and mechanisms designed to prevent and combat excessive gambling, including a continuously displayed clock appearing on all game screens, a timer for selecting playing duration, a display of wins and losses in dollars rather than credits, and messages promoting moderation and the help hotline.

The VLT replacement program coincided with the implementation of a site controller at each establishment equipped with VLTs. Furnished with a bar code reader, the site controller allows for the secure centralization of all reimbursement coupon validation operations.

MODIFIED COMMISSION RATE

The commission rate paid to VLT permit holders was reduced from 26% to 22% on November 16, 2003. Of course, retailers received prior notice of this modification along with pertinent information and a timetable related to pursuing their business relationship with the SLVQ. The new commission rate remains the highest among the eight Canadian provinces operating VLTs (with the exception of Newfoundland and Labrador), and all retailers opted to renew their business contract with the SLVQ.

INTERNATIONAL RECOGNITION

The Société des loteries vidéo du Québec has earned enviable international recognition by obtaining a special distinction during the International Association of Business Communicators' *Gold Quill* Award presentations in April 2003. The SLVQ earned its award in the "Economic, Social and Environmental" category for the excellence of its information and awareness program called *Au hasard du jeu*. Focused on chance and excessive gambling and aimed at proprietors and employees of establishments equipped with VLTs, the program was the product of a close collaboration with Université Laval's Centre québécois d'excellence pour la prévention et le traitement du jeu. The SLVQ received the award after a rigorous selection process by an international jury of business communication professionals.

VIDEO LOTTERIES

AS AT MARCH 31, 2004

Number of Terminals	14,293
Number of Sites	3,362
Number of Terminals per Site (average)	4.3
Number of Terminals per 1,000 Residents	1.9

REVENUES AND COMMISSIONS

AS AT MARCH 31, 2004
(in millions of dollars)

Net Income	1,128.8
Net Profit	746.6
Commissions to Retailers	276.8

DISTRIBUTION OF SITES AND TERMINALS BY REGION

AS AT MARCH 31, 2004

	VLTs	SITES
Laval – Lanaudière – Laurentides	2,287	502
Montréal	4,221	858
Québec City – Chaudière-Appalaches	1,694	421
Mauricie – Bois-Francs	973	251
Estrie	866	221
Saguenay – Lac-Saint-Jean – North Shore	741	207
Lower Saint Lawrence – Gaspésie – Îles-de-la-Madeleine	474	155
Abitibi-Témiscamingue – Northern Québec	456	114
Montérégie	1,779	443
Outaouais	802	190
Total	14,293	3,362

PERSPECTIVES

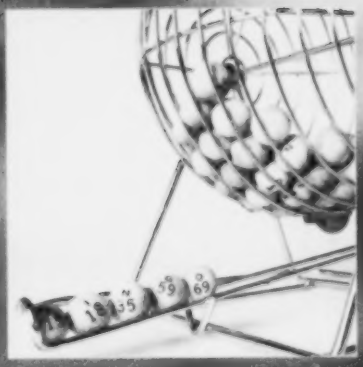
The Société des loteries vidéo du Québec is proud of its product and of the effectiveness of its network. Thanks to the renewal of its equipment inventory and installation of site controllers at licensed establishments, the subsidiary is confident that it will continue to generate the outstanding results it has in the past with respect to gaming security and integrity.

Over the next few years, the SLVQ will pursue its efforts to provide its retailers and consumers with the most entertaining and technically state-of-the-art product. At the same time, it will remain committed to maintaining a high level of communication and cooperation with its partners and the various different players involved in the industry.

Bingo

$10.3 MILLION PAID OUT TO NPOs

NETWORK BINGO INCREASES TRADITIONNAL BINGO PROFITS BY 40%



ONGOING CONSULTATIONS WITH INDUSTRY PLAYERS

A SECTOR CONTINUING TO SUPPORT NON-PROFIT ORGANIZATIONS DESPITE ITS FRAGILITY

The Société des bingos du Québec (SBQ) is Loto-Québec's subsidiary mandated to market bingo games, while providing valuable support to non-profit organizations (NPOs) licensed to operate these games. In fact, all of its profits are remitted to these organizations which offer network products at 136 of the province's 460 bingo halls.

At the end of its sixth year of existence, the SBQ posted total revenues of $36.9 million. Of this amount, the subsidiary contributed 100% of its profits of $10.3 million to NPOs, including residual net earnings of $2.1 million.

The products marketed by the SBQ generate a large portion of the revenues earned by NPOs holding bingo permits. Indeed, during fiscal 2003-2004, these revenues represented an addition of 40% to NPO earnings brought in from traditional bingo products.

Since its creation in 1997, the SBQ has distributed more than $60.5 million to accredited non-profit organizations. This translates into average contributions of $10 million each year, which is in line with the subsidiary's initial forecasts.

A FRAGILE SECTOR

For the past several years now, the bingo industry has been experiencing a marked decline in revenues originating from its traditional products—a direct result of the loss of consumer interest in this type of game throughout Canada. Consequently, since 1998, the number of bingo halls operating in Québec has dropped by one third.

This continuous dwindling of bingo clientele has a significant impact on NPOs that have chosen bingo as a source of revenue for financing their community initiatives. While some of these organizations are turning to alternate solutions, others are simply abandoning their community services due to their lack of funds.

In response to the concerns expressed by representatives within the bingo milieu, the SBQ has developed a series of measures aimed at bolstering the sector. These proposals should soon be the focus of discussions to be held between the members of the industry's Secretariat, a group comprised of elected representatives from within the bingo sector.

A SOLID PARTNERSHIP

Over the years, the SBQ has forged a solid partnership with non-profit organizations and bingo hall operators. Once again this year, according to a survey conducted among the SBQ's partners, 99% of operators and 95% of NPOs indicated that they were very or quite satisfied with services received from the subsidiary. The SBQ intends to employ all the means necessary to maintain this satisfaction rate and to continue to offer the highest quality products to bingo enthusiasts.

PERSPECTIVES

The SBQ is committed to pursuing its efforts to assure NPOs that, with profitability performance in the order of 28%, network bingo products can indeed be most productive for them. In addition, the subsidiary will soon be implementing various improvements to its *Le Petit Tour* game, introducing a new card strip format, as well as launching into discussions with its partners regarding the introduction of a new network game.

SALES BY REGION

APRIL 1, 2003 - MARCH 31, 2004

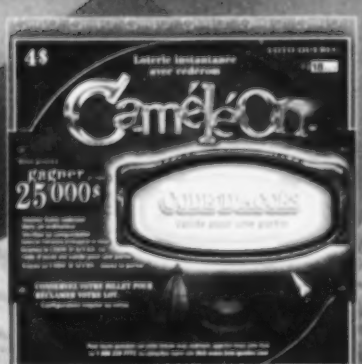
REGION	PARTICIPATING HALLS	EVENTS	PARTICIPATING NPOs	NET SALES	COMMISSIONS PAID TO OPERATORS	AMOUNTS DISTRIBUTED TO PARTICIPATING NPOs		
						SUMS PAID ACCORDING TO AGREEMENT	ADDITIONAL PAYMENTS UP TO 100% OF SHARE OF PROFITS	
				$	$	$	$	$
Lower Saint Lawrence	5	835	25	405,707	20,758	80,913	22,872	
Québec City	12	3,854	79	3,991,737	232,265	798,962	225,850	
Chaudière-Appalaches	7	1,070	25	960,051	49,589	191,540	54,144	
North Shore	2	151	4	117,367	3,920	23,348	6,600	
Saguenay-Lac-St-Jean	5	974	28	728,581	38,676	145,800	41,215	
Mauricie, Bois-Francs	7	1,947	37	2,171,040	124,899	434,223	122,746	
Estrie	3	926	20	1,032,795	61,355	206,506	58,375	
Montérégie	20	5,421	112	7,099,276	405,802	1,419,247	401,191	
Montréal	28	7,468	149	8,949,986	516,889	1 791,236	506,344	
Abitibi-Témiscamingue	7	1,026	20	762,487	41,063	152,327	43,060	
Outaouais	6	1,287	25	1,095,616	60,697	219,195	61,962	
Laval	6	2,271	43	2,741,356	160,318	548,815	155,138	
Laurentides	10	2,885	56	3,680,427	210,167	735,991	208,048	
Lanaudière	12	2,115	42	2,668,190	144,050	533,333	150,762	
Gaspésie	6	685	17	524,629	20,675	104,631	29,577	
Total (excluding the Fund)	136	32,915	682	36,929,245	2,091,123	7,386,067	2,087,884	9,473,951
Fund: Amounts distributed to non-participating NPOs								821,102
Grand total for NPOs								10,295,053

** Based on the most recent RACJ data (March 2004).*

Ingenio

AT THE FOREFRONT OF INDUSTRY DEVELOPMENTS

A SOLID NETWORK OF PARTNERS ABROAD



A PRODUCT PORTFOLIO THAT GROWS YEAR AFTER YEAR

SECURING SUCCESS THROUGH INTERNATIONAL COLLABORATION

Another of Loto-Québec's subsidiaries, Ingenio is mandated to conduct advanced research and development related to games of chance. After a little over five years of existence, Ingenio has successfully established a solid network of business partners extending well beyond the borders of Québec. This close collaboration with these partners intensified over the course of the past fiscal year, resulting in a more sustained exchange of information and the initiation of new joint projects.

Ingenio is an active participant in conferences, workshops and other events bringing together key players and decision makers from lottery markets worldwide. In so doing, the subsidiary is not only able to showcase its own products and remain at the forefront of new developments within the industry, but also to take advantage of the opportunity to negotiate new agreements for the benefit of Loto-Québec and its other subsidiaries.

A NEW PRODUCT BORN OUT OF A PRODUCTIVE COLLABORATION

Four years after launching *Trésors de la Tour*™, the world's first CD-ROM-based instant lottery, Ingenio introduced its latest innovation in 2004 — *Cyber Slingo*® — a multimedia lottery downloadable over the Internet and currently being marketed by the New Jersey Lottery Corporation.

The product of a fruitful partnership with Oberthur Gaming Technologies, *Cyber Slingo*® is an adaptation of the popular *Slingo*®, a world-renowned game licensed to Oberthur. Using Ingenio's patented multimedia lottery concept, *Cyber Slingo*® is activated with a code obtained by purchasing an instant lottery ticket. This ticket also serves to determine the final outcome of the game. The new downloadable lottery involves no financial transactions online. Moreover, as the game cannot be played without first purchasing a ticket from a lottery retailer, accessibility is restricted to those aged 18 and over. As such, *Cyber Slingo*® complies with all industry security standards and promises to be a major commercial success.

DIVERSIFIED MARKET OPPORTUNITIES

Numerous new research and development projects were undertaken in collaboration with foreign organizations during fiscal 2003-2004. These projects are allowing Ingenio to explore a variety of new market opportunities such as the development of gaming equipment for casinos and bingo halls.

The subsidiary also pursued its efforts during the year to develop multimedia lottery products derived from well-known existing games. For example, the Ingenio team worked hand-in-hand with Oberthur Gaming Technologies on the design of products that could complement the Tetris® and Mah Jong® games. Moreover, an agreement signed last year with MDI Entertainment already affords Ingenio the possibility of using such brand names as Harley Davidson® and Pink Panther™.

ENRICHING GAME OFFERINGS

Ingenio's product portfolio grew this past fiscal year with the addition of a number of new games, including *Caméléon*, *Eldorado* and *Cyber Slingo*®. Among the subsidiary's 12 existing products, the majority are now offered via CD-ROM and download over the Internet.

The Ingenio team was also hard at work during the past year on many new game concepts. Among the 20 or so concepts developed and tested, 14 reached the playable stage. This testing is invaluable in assuring the games' appropriateness and popularity with the target adult clienteles.

Two new CD-ROM-based lotteries were delivered to the Lottery sector during fiscal 2003-2004 — *Caméléon* in December and *Mémento* in February. Two games were also adapted for the American market — *Cyber Slingo*® for the New Jersey Lottery Corporation, and *Mini golf* for the Oregon Lottery Corporation. Moreover, the Oregon Lottery has already confirmed an order for three other multimedia games to be supplied by the end of fiscal 2004-2005.

A SUSTAINED COMMITMENT TO THE DEVELOPMENT OF THE INDUSTRY

Ingenio is firmly committed to encouraging the new wave of talent and the start-up of new enterprises in the Québec multimedia sector. A partner in the Québec Entrepreneurship Competition, Ingenio remits a $5,000 award each year in recognition of the best interactive multimedia entertainment project.

Furthermore, an *Ingenio* Award is presented annually to the creator of the best kinematics presentation from among those submitted by graduates of the 3D Video Game Design and Animation program at the Montréal Animation and Design Centre's annual gala.

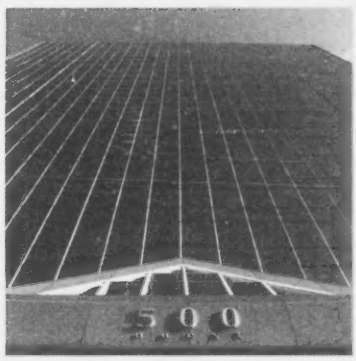
Finally, Ingenio also sponsors certain events organized by Alliance NumériQC, a network of multimedia and Internet professionals. In addition, Ingenio supports Cybercap, an organization dedicated to the social and professional integration of young 18- to 25-year-old dropouts through multimedia.

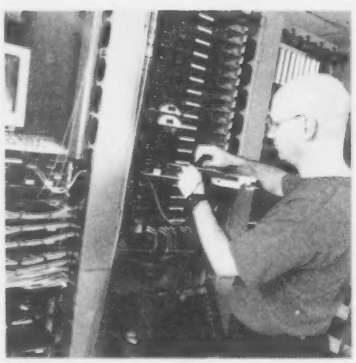
PERSPECTIVES

Having earned an enviable reputation in lottery markets worldwide, Ingenio intends to actively pursue its efforts to diversify its research and development endeavours over the coming years, amortizing its costs through productive new business agreements, particularly with partners outside Québec. At the same time, Ingenio will continue to design and produce innovative new multimedia games, while remaining at the forefront of advanced technologies and safeguarding its intellectual property.

AMONG THE 10
LARGEST REAL
ESTATE HOLDERS
IN QUEBEC

1,173
CONSECUTIVE
DAYS WITHOUT
CASH TERMINAL
MALFUNCTION





2% OF PAYROLL
ALLOCATED
TO PERSONNEL
TRAINING AND
DEVELOPMENT

GENERAL SECRETARIAT, LEGAL AFFAIRS AND INTERNAL AUDITING

With a wealth of expertise in its diverse areas of responsibility, the Office of the General Secretariat and Legal Affairs provides a variety of proactive services and professional counsel in support of the Corporation's objectives, particularly with regard to maintaining the balance between its business mandate and its social responsibilities. In addition to general administrative and legal matters, the Office's responsibilities include internal auditing, documentation management, the Mise sur toi Foundation, and the General Secretariat of the World Lottery Association.

GENERAL SECRETARIAT

Over the past fiscal year, in addition to coordinating the Board meetings of Loto-Québec and its subsidiaries, the General Secretariat reviewed the mandates of various of the Corporation's advisory committees and prepared the required regulatory amendments for the benefit of business units. In view of Loto-Québec's accentuated focus on marketing its products on the international scene, the Secretariat was also actively involved in obtaining patents and trademarks, as well as in the awarding of permits to ensure the adequate protection of the Corporation's intellectual property. Similarly, the Secretariat took some concrete steps to assure that the Corporation's patents receive greater recognition within the gaming industry.

In addition, and in parallel with the execution of its mandates related to ongoing business, the General Secretariat oversaw the effective management of Loto-Québec's Documentation Centre which houses the Corporation's archives, specialized magazines and journals, as well as more than 3,500 books.

LEGAL AFFAIRS

During fiscal 2003-2004, the Legal Affairs group maintained its proactive operating philosophy, keeping the Corporation's management abreast of all legislative and jurisprudential changes affecting their respective activity sectors. Legal Affairs also worked closely with units and subsidiaries to assure their understanding and compliance with the provisions of certain legislation, particularly the *Proceeds of Crime Act*. In this specific case, the team worked hand-in-hand with the three casinos and Vice-Presidencies of Security and Human Resources to inform employees and implement the appropriate procedures.

The group also devoted considerable effort to settling numerous legal dossiers involving Loto-Québec, specifically those pertaining to compulsive gambling. Finally, in line with its proactive strategy, Legal Affairs organized various seminars for management and staff on topics related to its sphere of activity.

INTERNAL AUDITING

Applying their particular expertise in accounting and control of gaming operations, Loto-Québec's Internal Auditing team pursued its analysis and assessment activities to maintain the Corporation's credibility and reputation for integrity. Using risk analysis procedures, the group periodically evaluates Loto-Québec's major systems and those of its subsidiaries and implements the required controls. During the past fiscal year, Internal Auditing focused particular attention on a series of information system development projects.

MISE SUR TOI FOUNDATION

Created by Loto-Québec in March 2002, the Mise sur toi Foundation's mandate is to conduct activities aimed at the prevention of compulsive gambling and encouragement of players to adopt responsible gaming behaviour. Among the Foundation's major accomplishments during the past fiscal year was the reinforcement of assistance and support at the casinos for players in distress. In addition, the Foundation played a key advisory role in support of the Corporation's various units, as well as in the awarding of grants to organizations dedicated to promoting healthy gaming practices. Furthermore, the Foundation was an active member of a number of sub-committees of the Inter-Ministerial Committee on Compulsive Gambling and Research, looking at better means to prevent excessive gambling on a global scale.

FINANCE, ADMINISTRATION AND STRATEGIC PLANNING

FINANCE AND ADMINISTRATION

As part of the Senior Vice-Presidency of Financial Affairs, the Vice-Presidency of Finance and Administration is responsible for preparing and monitoring budgets, maintaining the ledgers of the Corporation and its subsidiaries, preparing financial information, and managing Loto-Québec's accounts and insurance portfolio. Moreover, the Vice-Presidency spares no effort to obtain the best quality-price ratio when procuring goods and services, while fully respecting the principles of transparency and fairness in the selection of suppliers.

During the past fiscal year, the Corporation and its subsidiaries acquired goods and services valued at $444.2 million. These purchases were made from 1,100 suppliers, 91% of which are based in Québec. All purchasing activities were carried out in accordance with Loto-Québec's policy governing the awarding of contracts.

With the levelling off of corporate revenues, the need for tight cost controls has become greater than ever, particularly with regards to capital expenditures whose effects extend over several years. As such, Loto-Québec adopted a new policy whereby all proposed capital expenditures are carefully assessed by the Senior Vice-Presidency of Financial Affairs in order to assure that they are aligned with corporate profitability objectives.

STRATEGIC PLANNING

The Vice-Presidency of Strategic Planning was entrusted with a mandate to coordinate and support the 2004-2007 strategic planning initiative launched by the Corporation's senior management in the fall of 2003. In line with that mandate, the group provides consulting services to each of the organization's administrative and business units. In the process, a series of evaluation grids have been developed, and information prepared by each unit was carefully consolidated.

The Vice-Presidency also played an active role in the preparation of the 2004-2007 Development Plan, made public by the Corporation in May 2004. The group's work in collecting and analyzing the data gathered laid the foundations for establishing and supporting the strategic initiatives proposed in this important guiding document.

Also as part of its mandate to counsel management on their efforts to augment corporate efficiency and profitability, the group carried out a thorough evaluation of numerous projects and established a framework to analyze the potential benefits of various development hypotheses proposed by the Corporation's business units.

Relying upon an information bank that is constantly updated, the Vice-Presidency of Strategic Planning continued to prepare insightful analyses of gaming industry trends in Canada, North America and around the world. Thanks to these efforts, Loto-Québec has ready access to comparative data that is extremely valuable in allowing the Corporation to assess its own performance and establish new strategic directions.

REAL ESTATE ACTIVITIES

Loto-Québec's real estate holdings are comprised of more than 30 assets. The cost of these fixed assets were acquired in the order of $720 million. They include commercial properties (casinos, hotels, parking facilities), administrative buildings (offices and warehouses) and land holdings. Its properties occupying an area estimated at over 400,000 square metres, Loto-Québec ranks among the 10 largest real estate owners in the province.

As part of the Senior Vice-Presidency of Financial Affairs, the Vice-Presidency of Real Estate's mission is three-fold:

- to provide Loto-Québec and its subsidiaries with systematic support in the area of real estate management
- to administer the Corporation's buildings
- to plan and implement major real estate development projects

CLARIFICATION OF ROLES AND RESPONSIBILITIES

Fiscal 2003-2004 marked the adoption of a new real estate management policy aimed at clarifying the roles and responsibilities of the various corporate entities. More specifically, this new policy calls for the parent corporation to assume responsibility for the following:

- preparation of real estate master plans
- building acquisitions
- leasing, management and allocation of space
- management of local taxation
- projects exceeding $1 million

The normative aspects of the following activities have also been entrusted to the Vice-Presidency of Real Estate: standard and preventive maintenance, document management, construction work, repairs and development, asset maintenance.

Working in collaboration with the managers concerned, the Vice-Presidency also commenced the implementation of the action plan for organizing the future development of each of the Corporation's three casinos, located in Montréal, Gatineau and La Malbaie respectively. During the past fiscal year, efforts were focused primarily on the establishments in Montréal and La Malbaie.

PRINCIPAL PROJECTS UNDERWAY

The work initiated on the Fairmont Le Manoir Richelieu golf course proceeded at a positive pace during the past fiscal year. With a new nine-hole course now ready, the project management team also completed the restoration of the first of the two existing nine holes, and if weather conditions permit, work on the remaining nine holes should be finished in 2005.

In parallel with the work on the courses, construction of a new clubhouse got underway as well. Representing a total investment of approximately $3 million, the new clubhouse should be ready by July 2004. In addition, work on the Fairmont Le Manoir Richelieu's second outdoor pool was completed in time for the 2003 summer season.

At the Casino de Montréal, the Vice-Presidency conducted a comprehensive study to evaluate the state of the buildings, diagnose all technical deficiencies and determine the improvements that need to be made. A special program to maintain the condition of the establishment was implemented which will ensure that its principal mechanical, electrical, architectural and structural components are up to standard. In order to preserve the asset, resolve the most pressing problems and minimize further erosion of revenues, Loto-Québec will have to invest approximately $20 million as of this year. However, this is only a temporary solution which does not rectify the Casino's fundamental shortcomings.

At the Casino du Lac-Leamy, the Italian-style performance hall underwent a project that now allows for its ready transformation into a Cabaret-style configuration according to the specific needs of the production being presented. In the Casino's multi-level parking garage, the addition of an automated space management system will offer substantial savings in operating costs. Over the course of the year, the Vice-Presidency also succeeded in settling a number of disputes related to the construction of the Lac-Leamy Hotel Complex.

MANAGEMENT AND OPERATIONS

The upgrading of the electronic infrastructure of Loto-Québec's real estate holdings proceeded during fiscal 2003-2004, and two new service contracts were negotiated. Several improvements incorporating new technologies were also implemented at headquarters and within the subsidiaries. These involved telephone systems, office automation and copying services.

Furthermore, an innovative training program aimed at all real estate management personnel within the Corporation's subsidiaries was designed in collaboration with the Centre for Competency Development. The program offered various training activities in order to improve overall technical and real estate knowledge.

LOTIM

A subsidiary of Loto-Québec, Lotim owns 50% of the building housing the Corporation's Montréal headquarters on Sherbrooke Street West in partnership with SITQ National, a subsidiary in turn of the Caisse de dépôt et placement du Québec. The past fiscal year saw no change in the rental status of the building, with the occupancy rate remaining at almost 100%. In 2003, Lotim renewed its lease of some 325,000 square feet in the building for a period of five years.

The building's increased gross revenues have brought its net profit to $4.93 million, up 35% from the previous fiscal year. These results are the product of an increase in lease revenues, of reclaimable expenses, and of decreased amortization costs. Lotim's interest in the building translates into revenues of $2.46 million, which brings the net cost of the space occupied to approximately $16.50 per square foot.

CASINO MUNDIAL

Established in July 2002, Casino Mundial is a wholly owned subsidiary of Loto-Québec dedicated to exporting local expertise in casino design, implementation and management.

In September 2003, Casino Mundial concluded an agreement with the French corporation, Tahoe, to participate in a Call for Candidates to construct and operate a casino and performance hall for the City of Toulouse. The Toulouse region represents the fifth largest urban area in France. In December 2003, Casino Mundial and Tahoe were invited to submit a business plan and architectural concept for the future Toulouse Casino, and the Municipal Council's decision is expected in December 2004. The proposal consists of building and operating a gaming house for a period of 18 years which would house 400 slot machines, 18 gaming tables, a 1,450-seat multi-functional theatre and two gourmet restaurants.

More recently, in March 2004, Casino Mundial and its French partner submitted another proposal for the construction and operation of a casino in the City of Lille, which is at the heart of France's second largest urban area.

INFORMATION TECHNOLOGIES

The Corporate Vice-Presidency of Information Technologies is mandated to develop, acquire and operate, or to oversee the operation of gaming and management systems designed to support the business objectives of Loto-Québec and its subsidiaries. The group is also responsible for providing the organization with specialized guidance concerning the acquisition and application of new information technologies. Actively involved in helping the Corporation achieve its financial objectives, the group is particularly concerned with systematically integrating an effective balance between cost and benefits into all decisions pertaining to information technologies.

After a major reorganization of the Vice-Presidency in September 2003, the effective operation and development of the Corporation's computer infrastructure is now assured through the following departments:

- system operation
- development of gaming systems
- development of administrative and management systems
- system development support

While facilitating the support and coordination of resources, monitoring and follow-up, the Vice-Presidency's new structure also promotes improved knowledge transfer and more effective production of deliverables.

SUPERIOR SYSTEM RELIABILITY

Assuring the reliability of Loto-Québec's systems remained a top priority during fiscal 2003-2004, both in terms of integrity and security, as well as availability (99.95%) and performance (1,400 transactions per minute on lottery systems). This high degree of reliability was achieved despite the fact that some 1,500 interventions were carried out on the various networks. Thanks to the group's concerted efforts, a record number of 1,173 consecutive days were recorded without a malfunction affecting the lottery sales terminals.

PRINCIPAL ACCOMPLISHMENTS

Among the major accomplishments realized by the group's different teams over the course of the year are the following:

- replacement of notebook computers used by lottery product wholesalers (scheduled for completion by autumn 2004)
- implementation of a special department responsible for updates, technical support and the development of Loto-Québec's Internet, Extranet and Intranet sites
- development of two new online games — *L'ours chanceux* and *Pronostik* — as well as a new functionality allowing for the addition of bonus numbers for certain draws
- creation of a new lottery ticket data bank integrating a query function and helping to reduce the volume of information needing to be processed on the transactional game platform
- initiation of work aimed at improving the performance and durability of the new transactional game platform and transferring high-volume games such as *Lotto 6/49* and *Super 7* to the platform
- development of new versions of products in the instant and televised lottery categories
- implementation of a new payroll and human resources management data bank
- establishment of a department to monitor new technological advances and practices in the area of information technologies and assess their value to Loto-Québec and its subsidiaries

NTER TECHNOLOGIES

Specialized in the design and implementation of technological solutions and in the management of corporate networks, Nter Technologies became a wholly owned subsidiary of Loto-Québec during the past fiscal year. As such, Nter's mandate is now to provide computer services and support to the Société des casinos du Québec and the Société des loteries vidéo du Québec.

SECURITY

The Vice-Presidency of Corporate Security pursued the activities launched under the banner of its comprehensive program to evaluate the risks related to the security of information within Loto-Québec and its subsidiaries. Initiated in 2002 in collaboration with the Internal Auditing Department, the program known as Méhari is designed to define the priorities and identify the directions required to reduce security risks within each sector of the organization. In pursuing this program, the Corporation will be able to develop specific action plans whose implementation will improve the security of information and lead to better management of associated business risks.

The Vice-Presidency also continued to participate in computer system development projects in order to ensure that the appropriate security measures are implemented. These measures relate, in particular, to the set-up of an operational data bank, the creation of Extranet sites for partners and suppliers, and the launch of new products by the Lottery sector.

In addition to assuring the security of technological infrastructures, the Vice-Presidency focused particular attention on security in casino gaming areas and at establishments equipped with video lottery terminals. While continuing to apply a zero tolerance policy, the Vice-Presidency undertook a thorough review of all its policies and procedures in order to ensure that conditions are optimal for offering maximum security at these locations for the benefit of patrons and employees alike.

HUMAN RESOURCES

In recognition of the fact that its employees constitute its most valuable asset by far, the Corporate Vice-Presidency of Human Resources spared no effort during the past fiscal year in offering the most effective personnel training and development programs adapted to the current challenges of the organization. In fact, during the year, Loto-Québec allocated the equivalent of 2% of its total payroll to personnel training and development.

CENTRE FOR COMPETENCY DEVELOPMENT

The various programs implemented by the Corporation's Centre for Competency Development have been designed to achieve the following objectives:

- to reinforce management skills
- to prepare and develop new employees
- to improve technical knowledge and provide the professional expertise required to effectively mobilize personnel

The Centre devoted particular effort during the past year to supporting the management function within the organization. As part of a management development program focused on specific competency profiles and aimed at promoting a more consultative approach and improving interpersonal communications, the first module concentrated on leadership and was presented to some 960 managers. Depending on particular needs, this module featured a variety of different activities, including coaching and fine-tuning of specific skills.

With regards to technical and professional training, the emphasis was primarily on the acquisition of new proficiencies. Among the focus of individual activities were such topics and themes as office automation, new technologies, stress management and the art of effective negotiation.

RECRUITMENT AND STAFFING

Significant energy was also devoted to the recruitment of new employees able to meet the requirements of the Information Technologies sector. A large number of extra employees were hired to fill temporary positions.

In order to facilitate recruitment activities, the Vice-Presidency initiated an online program whose full implementation will be pursued throughout the course of the current fiscal year. This project makes use of a powerful software package which will optimize the recruitment process for the entire organization. For example, it will make it possible to quickly identify all candidates who meet the specific requirements of a particular position to be filled. The application will also provide timely information on the progress of a given recruitment operation.

RECOGNITION PROGRAM

A new program to acknowledge employees' years of service will be launched in 2004. Developed during the past fiscal year, this program designed for all personnel underlines the importance the Corporation accords to its human resources. More specifically, the program has been designed to meet three fundamental objectives:

- to recognize employee dedication
- to acknowledge employee contributions to the success of the Corporation
- to foster a sense of belonging among employees

REMUNERATION AND SALARY EQUITY

Marked progress was made during the past year towards the implementation of eight salary equity programs designed for all employees of Loto-Québec and its subsidiaries. For example, a computer module was developed which enables data collection, provides support to the various committees, stores evaluation results and provides a final classification of all positions. Last year, no fewer than 218 positions were the subject of an evaluation. In addition, the Vice-Presidency participated in numerous salary surveys over the course of the year. The findings of these surveys provide valuable indicators used for the subsequent development of the Corporation's salary policies.

LABOUR RELATIONS

An initial agreement to remain in effect through January 31, 2006 was concluded with the employees of the Hilton Lac-Leamy Hotel, who are represented by the CSN. At the Casino de Montréal, a new agreement was reached as well with general unit, security and restaurant personnel, who are also represented by the CSN. This new contract remains in effect until March 31, 2007.

Moreover, the past fiscal year saw the renewal of group insurance contracts and a simplified pension plan for Société des casinos du Québec and Resto-Casino employees.

PAYROLL AND SYSTEMS

The work time management software package continued to evolve during the past year, primarily through the establishment of a new data bank essential to supply the other applications.

An analysis of future needs related to the payroll system and the management of employee benefits was also completed last year. Through this analysis, certain fundamental elements were identified and classified which are invaluable for the development of an eventual upgrade project.

COMMUNICATIONS AND PUBLIC AFFAIRS

The Corporate Vice-Presidency of Communications and Public Affairs became a Senior Vice-Presidency in the Fall of 2003, underlining the prime importance of the communications function within the organization. In addition to providing strategic communications counsel to senior management and the various units of Loto-Québec, the new Senior Vice-Presidency is mandated to bring the Corporation closer to its different publics, promote awareness of the organization's socio-economic contributions, and to play an active role in helping Loto-Québec achieve its business objectives.

COMMUNICATION PLANS WITH MEASURABLE RESULTS

Committed to serving the organization's various units as its customers, during fiscal 2003-2004, the Communications Department developed and implemented a number of communication plans designed to effectively satisfy its customers' requirements. The value and success of these plans was assured by the rigorous use of measurement tools and performance indicators. The Department also contributed actively to promoting the recognition and visibility of the Corporation outside Québec by ensuring that representatives of the specialized press paid a visit to the casinos and their restaurants.

Responsible for the management and evolution of digital communications within Loto-Québec, the Communications group also operates the Corporation's 11 Web sites, seeing to it that consumers have ready access to all information pertaining to the organization and its business activities. Comprehensive and informative, Loto-Québec's portal site testifies to its commitment to transparency. During fiscal 2003-2004, the Web sites played host to close to 30 million visitors, ranking Loto-Québec among Canada's most popular corporate destinations in cyberspace. Moreover, the Corporation replied to some 5,000 e-mail queries from consumers during the course of the past reporting period.

PUBLICATIONS AND MEDIA RELATIONS

Also at the service of Loto-Québec's various units, the Publications Department maintained its brisk pace in creating and producing the Corporation's printed documents. In conjunction with its mandate to produce an employee newsletter that vividly reflects the reality of the organization's diverse components, the Publications team added a brand-new section to *En jeux* devoted entirely to casino, restaurant and hotel activities. For its part, the Media Relations Department also continued to meet the needs of the Corporation while ably responding to the many requests for information from the media.

EVENT SPONSORSHIP

The sponsorship of events is one of the tangible ways in which Loto-Québec is delivering on its social commitment. During the past fiscal year, the Corporation sponsored 196 different events province-wide, injecting a total of $10.8 million. While continuing to maintain its participation in major regional events, the Sponsorships Department now promotes festival-type events in larger urban centres which can generate significant economic spin-offs and are readily accessible to one and all.

THE MARIE-CLARISSE

A heritage schooner acquired by Loto-Québec in 2001 to promote the Charlevoix region and support the financing activities of non-profit organizations, the *Marie-Clarisse* sailed on 54 outings and welcomed 2,400 passengers aboard during the summer of 2003. Subsequent to a complete review of the schooner's vocation, and after launching a Call for Proposals, the Corporation has entrusted the commercial operation of the vessel to a firm active in the maritime sector.

THE LOTO-QUÉBEC COLLECTION

The Corporation pursued its policy of supporting the province's visual arts milieu with the acquisition of 274 new works during the past fiscal year at a total investment of $366,000. Created in 1979, the Loto-Québec Collection is now comprised of over 3,000 distinctive works by some 800 local artists.

The past year also saw the return of expo-sales, a formula that promotes the establishment of closer links between the Collection and artists working in the province's various regions. Moreover, the Collection participated in the *Voilà Québec en México* event. Held in autumn 2003 in conjunction with the Guadalajara International Book Fair, this cultural rendezvous marked the Collection's very first exposure abroad, with a selection of 91 works exhibited over a two-month period at the University of Guadalajara's Arts Museum.

SOCIAL CONTRIBUTION

24,500
DIRECT AND INDIRECT JOBS MAINTAINED

$103 MILLION
IN SOCIAL CONTRIBUTIONS

OVER $20
MILLION PER YEAR DEVOTED TO COMBATING COMPULSIVE GAMBLING

ECONOMIC SPIN-OFFS

Since its creation in 1969, Loto-Québec has paid more than $17 billion into public coffers, returning the fruits of its activities in their entirety to the Government and the provincial community at large. During the past fiscal year, the Corporation's financial contributions can be summarized as follows:

- $1,493 billion in dividends to the Québec Government
- $979.4 million in prizes to lottery and bingo winners
- $413.7 million in commissions and other compensation to lottery, video lottery and bingo network partners
- $444.2 million in the purchase of goods and services from some 1,100 suppliers
- $333.6 million in salaries and benefits to its 6,800 employees
- $155.8 million in taxes paid to governments
- $86.5 million in special contributions to governments

According to a study conducted by UQAM's School of Management Sciences, Loto-Québec's annual impact on the provincial economy translates into the maintenance of 24,500 direct and indirect jobs and a contribution of $975 million to the Gross Domestic Product.

The level of the Corporation's economic support rose considerably with the opening of its casinos. In addition to providing jobs for 6,000 people and serving as a major consumer of goods and services, the gaming houses and their related services stimulate the tourism sector significantly, with approximately 25% of their clientele originating from outside Québec.

SUPPORTING COMMUNITY ACTION

For over 25 years, Loto-Québec has been lending its financial support to hundreds of non-profit organizations (NPOs) involved in community development initiatives in Québec and abroad.

- A total of 1,369 organizations authorized to sell *Lotomatique* subscriptions or operate lottery kiosks in shopping malls were the beneficiaries of $9.9 million in commissions during fiscal 2003-2004.
- The Société des bingos du Québec also contributes to the financing of community organizations; 100% of its profits are remitted to non-profit organizations that hold bingo permits. During the past fiscal year alone, $10.3 million were contributed to more than 1,000 NPOs.
- Sums equivalent to 5% of net profits of the Société des casinos du Québec and Resto-Casino are remitted to the Fonds d'aide à l'action communautaire autonome, a fund administered by the Secrétariat à l'action communautaire autonome du Québec under the auspices of the Ministère de l'Emploi, de la Solidarité sociale et de la Famille. In fiscal 2003-2004, a total of $13.6 million was contributed to the Fund.
- Loto-Québec also contributes 1% of net profits of the Société des casinos du Québec and Resto-Casino to the Fonds d'aide à l'action humanitaire internationale. This program is administered by the Secrétariat à l'aide internationale du Québec, which is overseen by the Ministère des Relations internationales. During 2003-2004, a total of $2.7 million was contributed to this Fund.

SOCIAL CONTRIBUTION

In addition to its financial contributions, Loto-Québec supports community action through its event sponsorship program, through the development of its Art Collection, and through its financing of various government programs such as the Ministère de la Santé et des Services sociaux's program to prevent and combat compulsive gambling.

(in millions of dollars)

INTERVENTION SECTORS	2003-2004 CONTRIBUTIONS
Commissions to NPOs* – Lotteries	9.9
Payments to NPOs* – Bingo	10.3
Fonds d'aide à l'action communautaire autonome	13.6
Fonds d'aide à l'action humanitaire internationale	2.7
Sponsorships	10.8
Loto-Québec Collection	0.4
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation	
– Agricultural and farm shows	5.5
Ministère de la Santé et des Services sociaux	
– Services for dependent seniors	30.0
Ministère de la Sécurité publique	
– Assistance to compulsive gamblers	3.0
Ministère de la Santé et des Services sociaux	
– Assistance to compulsive gamblers	17.0
Total	103.2

* *Non-profit organizations*

COMBATING COMPULSIVE GAMBLING

Loto-Québec has focused its attention on the social consequences of gambling for two decades now, and particularly since the opening of the Casino de Montréal in 1993. Today, the Corporation is leading the way through its various initiatives and the financial resources it devotes to combating excessive gambling.

RESEARCH, PREVENTION AND ASSISTANCE PROGRAMS

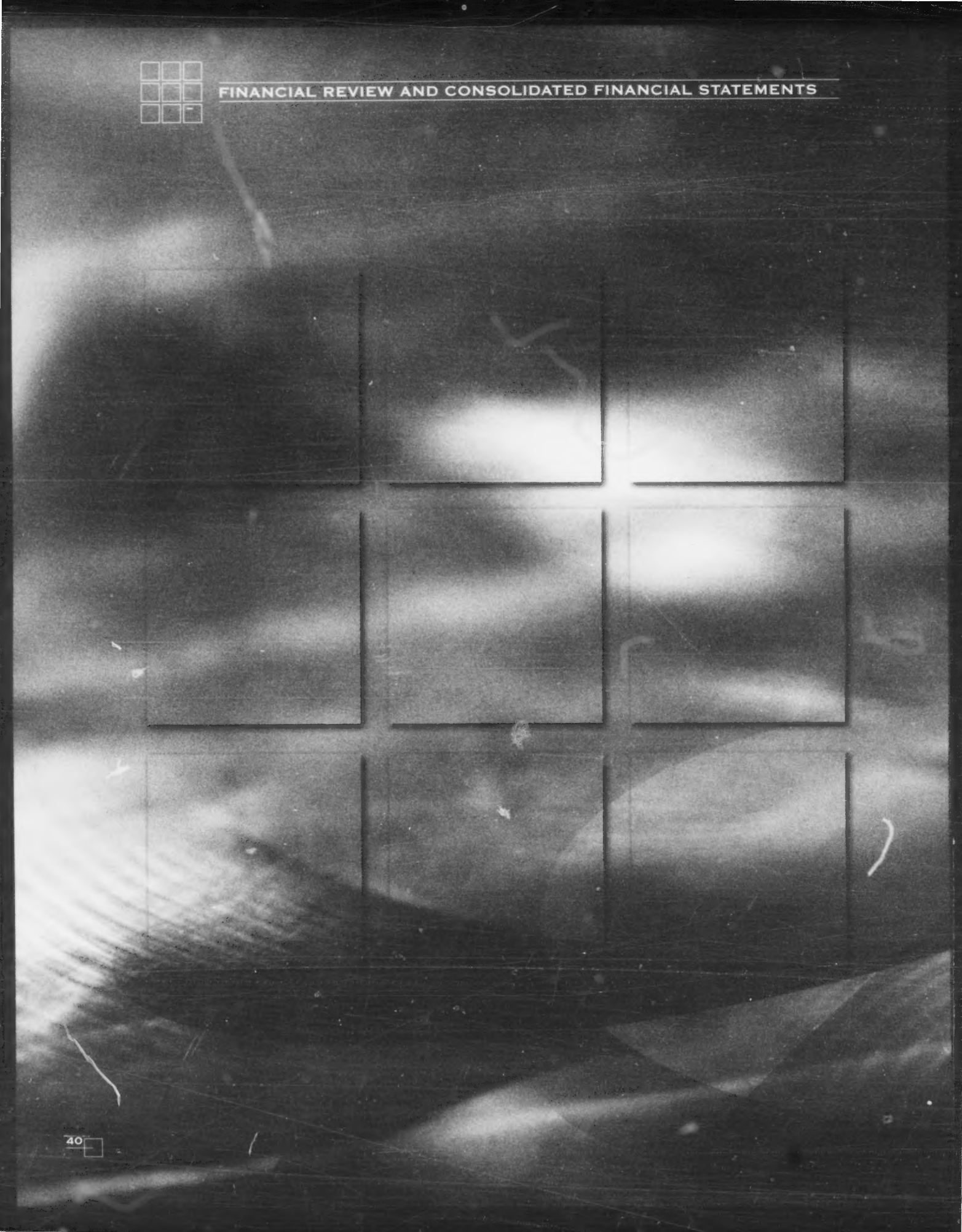
During the six-year period from April 1999 to the end of fiscal 2004-2005, Loto-Québec will have allocated more than $86 million to various research, prevention and assistance programs aimed at compulsive gamblers. Among its numerous initiatives, the Corporation financed the creation of the Centre québécois d'excellence pour la prévention et le traitement du jeu (affiliated with Université Laval) and the International Centre for Youth Gambling Problems and High-Risk Behaviours (affiliated with McGill University). Thanks, in part, to Loto-Québec's financial support, these two Centres are recognized worldwide as leaders in the field of compulsive gambling research and treatment.

In June 2001, Loto-Québec transferred its compulsive gambling research activities and prevention programs to the Ministère de la Santé et des Services sociaux. In turn, the Corporation makes an annual contribution of $17 million to this Ministry and $3 million to the Ministère de la Sécurité publique to help finance the research, education and treatment programs administered by the Régie des alcools, des courses et des jeux. As such, players with dependency problems now have free and ready access to some 100 support centres established throughout the province.

RECENT INITIATIVES

In parallel with its commercial activities, Loto-Québec is continuing to implement its own actions aimed at the prevention of compulsive gambling. Some of the measures taken over the past few years include:

- a player self-exclusion program at casinos
- active participation in the Interdepartmental Coordination Table created to promote greater collaboration between government agencies and organizations concerned with gaming in Québec
- promotional campaigns focused on the prohibition of lottery sales to minors
- a major contribution to the organization of a forum on compulsive gambling held in Montréal in November 2001
- creation of the Mise sur toi Foundation dedicated to promoting responsible gaming behaviour and supported with an initial injection of $2 million
- establishment of the 1 866 SOS-JEUX telephone help hotline
- institution of a front line service in casinos to help players in distress
- training and awareness programs for casino employees focused on compulsive gambling
- information and awareness sessions about compulsive gambling offered in collaboration with the Centre québécois d'excellence pour la prévention et le traitement du jeu to business partners of the Corporation and its subsidiaries, particularly to owners of bars, brasseries and taverns equipped with video lottery terminals (VLTs)
- display of warning messages on slot machines in casinos and on VLTs in licensed establishments
- addition of mechanisms promoting responsible gaming on the new VLTs recently installed in licensed establishments



For the fiscal year ended March 31, 2004, Loto-Québec's consolidated revenues totalled $3.761 billion, representing a slight increase of $11.3 million, or 0.3%, over the previous year. The Corporation's operating expenses totalled $697.6 million, down $8.6 million, or 1.2%, from the last reporting period in response to strict cost cutting directives for 2003-2004. The organization's consolidated net income rose to a little over $1.465 billion, representing an increase of 1.3% as compared to fiscal 2002-2003.

REVENUES AND GROSS PROFIT BY SECTOR

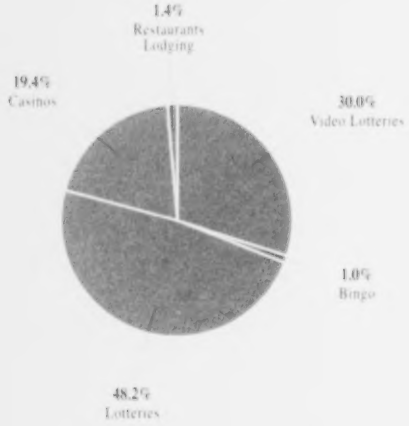
The Lottery sector remained the largest overall contributor to the Corporation's total sales this past fiscal year, posting revenues of $1.813 billion. However, this result represents a decrease of $21.6 million, or 1.2%, compared to the sector's earnings in the previous fiscal year, due primarily to the disappointing performance of instant lotteries. Gross profit in this sector equalled $690.4 million, a drop of $31.1 million with respect to the previous reporting period. In addition to the decline in revenue, this variation can also be attributed to Loto-Québec's payment of $24.8 million to the Interprovincial Lottery Corporation to finance *Super 7* jackpots. Moreover, the Lottery sector paid out a total of $962.7 million in prizes to winners and another $123.6 million in commissions to retailers.

With revenues of $728.9 million during 2003-2004, the Casino sector posted a decrease of $18.6 million, or 2.5%, as compared to the previous fiscal year. This decline is attributable primarily to the Casino de Montréal, where revenues dropped by $19.3 million, or 3.9%, as a reflection of reduced visitor traffic. At the Casino du Lac-Leamy, revenues remained at a level equal to the previous year despite a series of events that had a negative impact on tourism within the Outaouais region. In the Charlevoix region, the Casino de Charlevoix saw its earnings rise by $1 million, or 2.3%. Combined promotional allowances remitted by the three gaming houses last year totalled $19.6 million.

For its part, the Restaurant and Lodging sector recorded earnings of $92.1 million, down by $1.2 million, or 1.2%, over the previous fiscal year. This decline can be explained by the drop in the number of patrons frequenting the Casinos' bars and restaurants, particularly at the Casino de Montréal. On the other hand, the Hilton Lac-Leamy Hotel saw its revenues grow during the past year by 4.7%.

Totalling $1.129 billion in fiscal 2003-2004, the Video Lottery sector's revenues rose by $51.9 million, or 4.8%, as compared to the previous year. During the course of the past year, Loto-Québec implemented a voluntary program for the withdrawal of video lottery terminals (VLTs) from certain licensed establishments in return for financial compensation. A total of 301 establishments took part in this program, resulting in the reduction of sites now equipped with VLTs to 3,362, representing a decrease of 8%. The units that were thus removed were subsequently reinstalled at other sites. As at March 31, 2004, the number of VLTs in operation throughout the network was 14,293. Moreover, since November 16, 2003, the commission rate paid to VLT operators dropped from 26% to 22%, translating into a total of $276.8 million paid during fiscal 2003-2004 as opposed to $280 million the previous year.

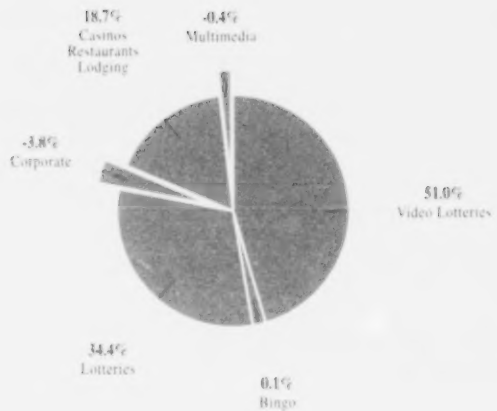
CONSOLIDATED REVENUES



At $36.9 million, Loto-Québec's Bingo sector's revenues showed a decline of $676,000, or 1.8%, over the previous year. This decrease is primarily the result of a reduction of more than 300 bingo events subsequent to the closing of numerous halls and the suspension of bingo activities by non-profit organizations. During the past fiscal year, the Société des bingos du Québec awarded $16.7 million in prizes to winners and $2.1 million in commissions to hall operators.

Finally, revenues originating from royalties earned by the Multimedia sector totalled $642,000, down $285,000 from fiscal 2002-2003. Of this amount, earnings generated from exports equalled $434,000, with the remaining $208,000 derived from two products marketed by Loto-Québec's Lottery sector.

CONSOLIDATED NET INCOME



OPERATING EXPENSES

Loto-Québec's operating expenses equalling $697.6 million were down by $8.6 million, or 1.2%, during the past year. This represents a ratio of 18.5% of the Corporation's total earnings, as compared to 18.8% for fiscal 2002-2003. All activity sectors contributed to this reduction in expenses.

OTHER ITEMS

Other items totalled $134.5 million, a decline of $4.1 million, or 2.9%, with respect to the preceding reporting period. This decrease is due mainly to consumption taxes (GST and QST).

CONTRIBUTIONS TO GOVERNMENTS

Loto-Québec's initial contribution in the form of dividends to the Ministre des Finances amounted to $1.393 billion during fiscal 2003-2004, or $82 million more than during the previous year. The Government requested an additional effort in the order of $100 million, bringing the total dividend to 1.493 billion. In addition, a total of $72.3 million was paid into the Québec Government's various designated funds, along with another $85.9 million to the Ministre du Revenu in tax on capital and Québec Sales Tax. As such, total contributions to the Québec Government equalled close to $1.651 billion. Moreover, the Corporation contributed $14.2 million to the Government of Canada as compensation for its withdrawal from the lottery sector, as well as $69.8 million in the form of Goods and Services Tax.

MANAGEMENT REPORT

The Board of Directors is responsible for the consolidated financial statements drawn up for the shareholder. It delegates responsibility for preparing them to senior management, while the Audit Committee reviews them.

Management has a system of internal controls to ensure that the financial statements are reliable, and Internal Audit monitors the system to ensure it works properly.

The consolidated financial statements are prepared according to Canadian generally accepted accounting principles, which in certain cases, require judgements on the part of management. The financial information contained within the rest of the Annual Report corresponds to the information provided in the financial statements.

By law, the Auditor General of Québec audits the books and accounts of Loto-Québec. The Audit Committee and the Auditor General meet with management to discuss questions pertaining to the audit and to the consolidated financial statements. Audit Committee members have no link to Loto-Québec other than as directors.

Upon the recommendation of the Audit Committee, the Board of Directors has approved the consolidated financial statements of Loto-Québec for the fiscal year ended March 31, 2004.

ALAIN COUSINEAU

Chairman, President and
Chief Executive Officer

Montréal, May 20, 2004

GÉRALD HOULE, CMA

Corporate Vice-President,
Finance and Administration

AUDITOR'S REPORT

To the Minister of Finance

I have audited the consolidated balance sheet of Loto-Québec as at March 31, 2004 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Loto-Québec's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. These standards require that I plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present, in all material aspects, the financial position of Loto-Québec as at March 31, 2004, and the results of its operations and cash flows for the year ended in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., Chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

DORIS PARADIS, FCA

Interim Auditor General

Québec City, May 20, 2004

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED MARCH 31, 2004
(in thousands of dollars)

	2004	2003
Revenue	3,760,743	3,749,410
Cost of sales (note 3)	1,463,463	1,458,654
Gross profit	2,297,280	2,290,756
Operating expenses		
Operating expenditures	603,052	618,149
Depreciation of fixed assets	80,150	77,440
Amortization of patents	–	309
Amortization of deferred charges	2,183	2,359
Interest – Net (note 4)	12,177	7,856
	697,562	706,113
Income before the following items	1,599,718	1,584,643
Special payments (note 5)	28,165	26,873
Goods and Services Tax	49,553	52,093
Québec Sales Tax	56,750	59,603
	134,468	138,569
Net income	1,465,250	1,446,074

Segmented information (note 23)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 2004
(in thousands of dollars)

	2004	2003
Balance at beginning of year	234,565	192,796
Net income	1,465,250	1,446,074
	1,699,815	1,638,870
Dividends	(1,493,000)	(1,311,000)
Fonds d'aide à l'action communautaire autonome (note 6a)	(13,559)	(14,575)
Fonds d'aide à l'action humanitaire internationale (note 6a)	(2,712)	(2,915)
Contributions to the Québec Government (note 7a)	(55,997)	(75,815)
	(1,565,268)	(1,404,305)
Balance at end of year	134,547	234,565

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 2004
(in thousands of dollars)

	2004	2003
ASSETS		
Current		
Cash on hand – Casinos	52,586	46,854
Cash on hand	14,001	15,943
Temporary investment	–	14,956
Accounts receivable (note 8)	71,085	75,674
Inventory (note 9)	14,312	15,811
Prepaid expenses	21,629	30,987
	173,613	200,225
Investments	39,711	40,598
Fixed assets (note 10)	793,546	745,930
Deferred charges, amortized (note 11)	3,531	3,078
	1,010,401	989,831
LIABILITIES		
Current		
Bank loans (note 12)	602,787	519,176
Prizes payable	69,313	53,817
Accounts payable and accrued liabilities (note 13)	175,349	143,389
Provisions related to prizes (note 14)	9,807	18,574
Deferred income	18,428	20,140
	875,684	755,096
SHAREHOLDER'S EQUITY		
Capital-stock authorized, issued and fully paid:		
1,700 shares with a par value of $100 each	170	170
Retained earnings	134,547	234,565
	134,717	234,735
	1,010,401	989,831

Commitments (note 15)

On behalf of the Board of Directors

ALAIN COUSINEAU
Chairman of the Board

ROBERT CREVIER
Member of the Board

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2004
(in thousands of dollars)

	2004	2003
Operating activities		
Net income	1,465,250	1,446,074
Items not affecting cash flows:		
Depreciation of fixed assets	80,150	77,440
Amortization of patents	–	309
Amortization of deferred charges	2,183	2,359
Net contribution to the Manoir Richelieu LP	4,869	4,227
Share of the earnings of Nter Technologies, s.e.c.	–	(520)
Changes in assets and liabilities related to operations (note 17)	27,319	(24,235)
Operating activity cash flows	1,579,771	1,505,654
Financing activities		
Dividends paid	(1,457,000)	(1,367,000)
Bank loans	83,611	132,613
Contributions to the Québec Government	(55,997)	(78,531)
Fonds d'aide à l'action communautaire autonome	(13,559)	(14,575)
Fonds d'aide à l'action humanitaire internationale	(2,712)	(2,915)
Financing activity cash flows	(1,445,657)	(1,330,408)
Investment activities		
Acquisition of fixed assets	(148,852)	(189,737)
Deposits for the acquisition of fixed assets	9,990	17,055
Acquisition of investments (note 2)	(237)	36
Distribution to the Manoir Richelieu LP	(4,307)	(5,144)
Distribution of the Manoir Richelieu LP	762	487
Acquisition of deferred charges	(2,636)	(3)
Investment activity cash flows	(145,280)	(177,306)
Net increase in cash and cash equivalents	(11,166)	(2,060)
Cash and cash equivalents at beginning of year	77,753	79,813
Cash and cash equivalents at end of year (note 17)	66,587	77,753

1. AUTHORITY AND OBJECTIVES

The Société des loteries du Québec (the Corporation), also designated as Loto-Québec, is a joint-stock corporation whose shares form part of the public domain and are allotted to the Minister of Finance. Under its act of incorporation (R.S.Q., Chapter S-13.1), its functions are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. It may also offer, for consideration, consulting and implementation services in matters within its competence. By virtue of the Income Tax Act (R.S.C. (1985), Ch. 1 (5th supplement)) and the Taxation Act (R.S.Q., Ch. I-3), the Corporation is exempt from paying income tax.

2. ACCOUNTING POLICIES

The consolidated financial statements of Loto-Québec have been prepared by management in accordance with Canadian generally accepted accounting practices. These statements comprise amounts based on best judgement and estimates.

CONSOLIDATION

The consolidated financial statements include the accounts of Loto-Québec and its wholly owned subsidiaries:

- Lotim Inc.
- La Société des casinos du Québec Inc.
- Casiloc Inc.
- La Société des loteries vidéo du Québec Inc.
- Resto-Casino Inc.
- Ingenio, filiale de Loto-Québec Inc.
- La Société des bingos du Québec Inc.
- World Gaming Consultants Inc.
- 9059-3849 Québec Inc.
- Casino Mundial Inc.
- Nter Technologies LP
- Nter Technologies Inc.

The investments in the Manoir Richelieu Limited Partnership and the 9064-1812 Québec Inc. General Partnership are entered at their consolidated value.

During the fiscal year ended March 31, 2003, investments in Nter Technologies Inc. and in Nter Technologies LP were entered at their consolidated value. In October 2003, the Corporation acquired 50 Category A common shares of Nter Technologies Inc. and 50,000 Category A shares of Nter Technologies LP for a payment of $7,879,000, bringing its share in these entities to 100%.

2. ACCOUNTING POLICIES (CONTINUED)

Net asset and liability items acquired are as follows:

(in thousands of dollars)	
Cash on hand	7,642
Fixed assets	732
Asset and liability items related to operations	(495)
Total acquisition cost	7,879

The amount of cash paid for the acquisition ($7,879,000), less cash acquired ($7,642,000) equals $237,000.

REVENUE

LOTTERIES

Gross revenue from the sale of lottery tickets and bingo cards is recorded on the date of the draw, with the exception of revenue from instant lottery ticket sales, which is entered at the time of sale.

With the exception of instant lotteries, lottery tickets sold as at March 31 for draws subsequent to that date are treated as deferred income. Discounts to retailers on these sales are carried as prepaid expenses.

CASINOS AND VIDEO LOTTERIES

Revenue from the operation of these activity sectors corresponds to the difference between wagers and prizes awarded.

MULTIMEDIA

Revenues represent royalties based on a certain percentage of the total of the CD-ROM/lottery ticket retail price. These revenues are recorded when the printer delivers the CD-ROM/lottery tickets to the lottery corporations.

COST OF SALES

LOTTERIES AND BINGOS

Prizes awarded from ticket sales for bingo and certain lottery products are based on a theoretical sales rate.

In addition to lottery prizes in cash or merchandise, Loto-Québec also awards free tickets. The value ascribed to these prizes is equal to the selling price and is included with sales as revenue and with prizes as expenditure.

CASINOS

These amounts represent the promotional cash rebates issued to casino customers.

PENSION PLANS

Defined contribution plan accounting is applied to inter-company governmental defined benefit plans, given that Loto-Québec does not have adequate information to apply defined benefit plan accounting practices.

INVENTORY

LOTTERIES AND VIDEO LOTTERIES

Inventories are valued at the lower of average cost and replacement value.

RESTAURANTS

Inventories are valued at the lower of cost and net realizable value. Cost is estimated as follows:

Food and beverages: average cost
Hotel and kitchen equipment: base stock

TEMPORARY INVESTMENTS

Temporary investments are entered at the lower of cost and sale value.

FIXED ASSETS

Fixed assets are presented at acquisition cost and, with the exception of works of art, are depreciated according to their estimated useful life based on the following methods and durations:

	METHOD	DURATION
Buildings	Straight-line compound interest at 5%	2% to 6 2/3% 40 years
Parking lot landscaping	Straight-line compound interest at 5%	6 2/3% 40 years
Rented parking lot landscaping	Straight-line	2.86% and 6 2/3%
Interior design	Straight-line compound interest at 5%	10% and 14.29% 40 years
Exterior landscaping	Straight-line compound interest at 5%	10% and 14.29% 40 years
Leasehold improvements	Straight-line	10% to 20%
Office furniture	Straight-line	10% and 20%
Rolling stock	Straight-line	5% and 30%
Equipment	Straight-line	10% to 50%

DEFERRED CHARGES

Start-up costs related to the Resort Complex and expansion of the Casino du Lac-Leamy are amortized using the straight-line method over a three-year period.

Financial compensation equivalent to one year's commission is paid to each operator participating in the voluntary video lottery terminal withdrawal program. This compensation is deferred and amortized using the straight-line method over a five-year period.

CASH AND CASH EQUIVALENTS

The policy of the Corporation is to present, as cash and cash equivalents, the Casinos' cash on hand, bank balances and temporary investments readily convertible into a known cash amount whose value is not likely to change significantly.

3. COST OF SALES

	2004	2003
Lotteries		
Prizes awarded	962,692	953,225
Commissions to retailers	123,595	125,858
Printing of tickets	35,862	33,329
	1,122,149	1,112,412
Casinos, Restaurants, Lodging		
Promotional allowances	19,577	18,737
Restaurants	24,207	26,577
	43,784	45,314
Video Lotteries		
Commissions to retailers	276,842	280,007
Printing	1,132	1,110
	277,974	281,117
Bingo		
Prizes awarded	16,734	17,036
Commissions to operators	2,091	2,112
Printing of cards	731	663
	19,556	19,811
	1,463,463	1,458,654

4. INTEREST - NET

	2004	2003
Interest on bank loans	13,112	8,652
Interest on term deposits	(935)	(796)
	12,177	7,856

5. SPECIAL PAYMENTS

	2004	2003
Compensation to the Government of Canada	14,247	14,000
Net contribution to the Manoir Richelieu LP	4,869	4,227
Special commissions to non-profit organizations	842	807
Compensation to participating non-profit organizations	7,386	7,519
Compensation to non-participating non-profit organizations	821	840
Share of the results of Ntier Technologies, s.e.c.	–	(520)
	28,165	26,873

COMPENSATION TO THE GOVERNMENT OF CANADA

Under an agreement reached between the provincial governments and the Government of Canada concerning its withdrawal from the administration of lotteries, the provinces pay the federal government the equivalent of $24 million in 1979 dollars every year. For the year ended March 31, 2004, this amounted to $59.4 million (2003: $57.8 million).

The Québec Government's share is payable by the Corporation in accordance with an agreement between the provinces and regional lottery corporations.

NET CONTRIBUTION TO THE MANOIR RICHELIEU LIMITED PARTNERSHIP

Under the terms of the guarantee agreement and in accordance with the distribution methods specified in the partnership agreement, the net contribution represents the minimum share of liquidities generated by the operations of the Casino de Charlevoix that is to be paid to the partners, taking into account Loto-Québec's share in the results generated by the Manoir Richelieu.

SPECIAL COMMISSIONS TO NON-PROFIT ORGANIZATIONS (NPOs)

Further to a decision by the shareholder, a commission equal to the discount allotted to retailers is paid to non-profit organizations selling lottery tickets through the LOTOMATIQUE subscription system.

COMPENSATIONS TO NON-PROFIT ORGANIZATIONS (NPOs)

PARTICIPATING NPOs

The Société des bingos du Québec Inc. allots charitable or religious organizations that hold a bingo license an amount equal to the higher of 36.4% of bingo ticket sales less the value of prizes paid to game winners, or 50% of net income generated by bingo games, not counting compensation to non-participating NPOs.

NON-PARTICIPATING NPOs

The Société des bingos du Québec Inc. allots an amount equal to 5.45% of total ticket sales of the LE GRAND TOUR game (less the value of prizes awarded to winners of this game) to charitable or religious organizations that hold a bingo license but do not participate in the Corporation's bingo games.

6. FONDS D'AIDE À L'ACTION COMMUNAUTAIRE AUTONOME AND FONDS À L'ACTION HUMANITAIRE INTERNATIONALE

Under its act of incorporation, each year, the Corporation pays into the Fonds d'aide à l'action communautaire autonome and the Fonds à l'action humanitaire internationale sums equivalent to 5% and 1% respectively of net income earned during the previous fiscal year through the operation of the State-run casinos and the businesses which are incidental to them.

7. CONTRIBUTIONS TO THE QUÉBEC GOVERNMENT

	2004	2003
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)	5,500	5,250
Ministère de la Santé et des Services sociaux	47,000	47,000
Ministère de la Sécurité publique	3,497	3,000
Ministère des Affaires municipales	–	300
Ministère des Finances	–	20,265
	55,997	75,815

8. ACCOUNTS RECEIVABLE

(in thousands of dollars)

	2004	2003
Wholesalers	28,654	25,805
Retailers	27,967	27,440
Miscellaneous	14,464	22,429
	71,085	75,674

9. INVENTORY

(in thousands of dollars)

	2004	2003
Lotteries		
Modules – Game terminals	119	–
Video Lotteries		
Modules – Video lottery terminals	5,161	7,133
Restaurants		
Food and beverages	5,663	5,314
Kitchen and hotel equipment	3,369	3,364
	9,032	8,678
	14,312	15,811

10. FIXED ASSETS

(in thousands of dollars)

			2004	2003
	COST	DEPRECIATION AND AMORTIZATION	NET	NET
Land	32,105	–	32,105	32,105
Buildings	286,508	71,436	215,072	221,256
Parking lot landscaping	127,871	48,363	79,508	83,285
Rented parking lot landscaping	5,271	2,220	3,051	3,327
Interior design	177,845	78,833	99,012	100,055
Exterior landscaping	29,870	16,865	13,005	15,169
Leasehold improvements	33,563	21,378	12,185	14,377
Office furniture	27,763	15,692	12,071	13,154
Rolling stock	2,937	954	1,983	1,989
Equipment	534,915	270,538	264,377	168,121
Art works	4,220	–	4,220	3,854
Work in progress	56,957	–	56,957	89,238
	1,319,825	526,279	793,546	745,930

Work in progress represents the computer projects in development in the amount of $37.0 million (2003: $18.3 million) and equipment in the amount of $20.0 million (2003: $70.9 million).

Work terminated at a cost of $2.5 million, entirely amortized as at March 31, 2004, is included in equipment.

11. DEFERRED CHARGES, AMORTIZED

(in thousands of dollars)

	2004	2003
Start-up costs	1,028	3,078
Financial compensation	2,503	–
	3,531	3,078

12. BANK LOANS

Demand bank loans are authorized by the Québec Government for a maximum amount of $700 million bearing interest at market rates.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands of dollars)

	2004	2003
Suppliers and accrued liabilities	121,245	135,544
Dividends	36,000	–
Manoir Richelieu LP	6,923	4,239
Québec Sales Tax	6,063	512
Goods and Services Tax	5,118	278
Nter Technologies, s.e.c.	–	2,816
	175,349	143,389

14. PROVISIONS RELATED TO PRIZES

(in thousands of dollars)

	2004	2003
Provision for unclaimed prizes	5,372	7,243
Provision for prize structure variances	4,435	11,331
	9,807	18,574

14. PROVISIONS RELATED TO PRIZES (CONTINUED)

The provision for unclaimed prizes is made up of unclaimed prizes from all Loto-Québec products, excluding Canada-wide games. This amount is used for the payment of bonuses and retailer prizes.

The provision for prize structure variances in bingo and certain lottery products is made up of all differences between the theoretical amount of prizes to be awarded under the prize structure and the actual amount payable. Monies from this provision are used principally to offset occasional shortfalls arising from prize structures that exceed the forecast amount. With the approval of the Board of Directors, this provision may also be used for bonus prizes or for discharging any claims associated with the games, or it may be included in the results.

15. COMMITMENTS

LEASES

Under an agreement expiring June 2008 with a five-year option to renew, the Corporation is committed to paying a minimum of $41.2 million (2003: $2.4 million) for the rental of the premises occupied by its head office in a building held in joint tenancy with SITQ National Inc., representing a consolidated commitment of $20.6 million (2003: $1.2 million). In addition, the Corporation is committed, under long-term leases expiring on various dates up until 2035, to renting space for administrative offices. In certain cases, these leases have a two- to five-year renewal option.

The minimum rental payments (in thousands of dollars) are as follows:

2005	15,143
2006	14,140
2007	13,480
2008	12,409
2009	7,892
2010 and subsequent:	11,535
	74,599

CONTRIBUTIONS TO THE QUÉBEC GOVERNMENT

MINISTÈRE DE L'AGRICULTURE, DES PÊCHERIES ET DE L'ALIMENTATION (MAPAQ)

In view of the decision to terminate the activities of fairground casinos, the Government authorized Loto-Québec to give its commitment to the MAPAQ to pay a sum of $5.5 million each calendar year into a designated fund for five years until 2008. Upon expiry, the agreement will be renewable by mutual consent of the parties.

MINISTÈRE DE LA SANTÉ ET DES SERVICES SOCIAUX

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Santé et des Services sociaux to pay a total of $17 million annually into a designated fund to finance prevention activities, treatment services, research programs and information campaigns to help compulsive gamblers.

Moreover, the Corporation has also given its commitment to the Ministère to pay $30 million annually into another designated fund to finance support and assistance services for seniors with restricted mobility living at home or at residential centres.

The Corporation is unable to assess the total amount of these commitments.

MINISTÈRE DE LA SÉCURITÉ PUBLIQUE

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Sécurité publique to pay an annual sum of $3 million into a designated fund to finance a series of rigorous control activities and measures to be implemented by the Régie des alcools, des courses et des jeux related, in particular, to overseeing access to video lottery terminals. The Corporation is unable to assess the total amount of this commitment at this time.

Moreover, the Corporation has also given its commitment to the Ministère to pay approximately $0.5 million annually, over a period of five years ending September 30, 2007, into a designated fund to finance additional resources to help reduce the time required to certify the Corporation's gaming equipment.

16. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their accounting value due to their matching expiry date.

17. CONSOLIDATED CASH FLOWS

(in thousands of dollars)

	2004	2003
Cash and Cash Equivalents		
Cash on hand – Casinos	52,586	46,854
Cash on hand	14,001	15,943
Temporary investments	–	14,956
	66,587	77,753
Changes to Assets and Liabilities Related to Operations		
Accounts receivable	4,589	(8,007)
Inventory	1,499	(7,037)
Prepaid expenses	(632)	(3,580)
Prizes payable	15,496	2,799
Accounts payable and accrued liabilities	16,846	5,593
Provisions related to prizes	(8,767)	(18,987)
Deferred income	(1,712)	4,984
	27,319	(24,235)
Supplementary Information		
Interest paid	8,964	10,694
Prepaid expenses transferred to fixed assets	9,990	17,055

18. PENSION PLANS

Employees of the parent corporation, the Société des loteries vidéo du Québec Inc., the Société des bingos du Québec Inc., and Ingenio, filiale de Loto-Québec Inc., participate in the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP), the Régime de retraite des fonctionnaires (RRF) and the Régime de retraite du personnel d'encadrement (RRPE). These are benefit-based pension plans and contain guarantees upon retirement or death. Contributions charged to consolidated earnings for the fiscal year for these plans total $2.1 million (2003: $1.8 million). The employer's obligations towards these government plans are limited to its contributions as an employer.

The employees of the Société des casinos du Québec Inc. and Resto-Casino Inc. participate in a defined contribution plan. Employees of Nter Technologies LP participate in a group Registered Retirement Savings Plan. These defined contribution plans are voluntary and provide employees with immediate payment of the employer's contribution, which is equal to the employee's contribution within the limits prescribed by the plans. Contributions charged to consolidated earnings for the fiscal year under these plans total $8.8 million (2003: $8.1 million).

19. RELATED PARTY TRANSACTIONS

Over the course of fiscal 2003, the Corporation engaged the consulting and management services of a limited partnership company, jointly owned by Loto-Québec and a third party, for a total of $36.0 million.

In addition to the related party transactions already outlined and accounted for, Loto-Québec is related to all Québec Government departments and special funds, as well as to all agencies and enterprises controlled directly or indirectly by the Government, or subject either to joint control or to significant mutual influence on the part of the Government. The Corporation has not concluded any business transactions with these related parties other than within the normal course of its activities and on regular business terms. These transactions are not disclosed separately in the financial statements.

20. COMPARATIVE FIGURES

Certain comparative figures posted for the year 2003 have been reclassified in order to conform to the presentation adopted in 2004.

21. SEGMENTED INFORMATION

(in thousands of dollars)

	2004							
ACTIVITY SECTORS	LOTTERIES	CASINOS RESTAURANTS LODGING	VIDEO LOTTERIES	BINGO	MULTIMEDIA	CORPORATE	INTER COMPANY ELIMINATION	CONSOLIDATED FIGURES
Revenue								
Games	1,812,785	728,906	1,128,847	36,929	642	–	(208)	3,707,901
Restaurants	–	79,617	–	–	–	–	(39,222)	40,395
Lodging	–	12,447	–	–	–	–	–	12,447
	1,812,785	820,970	1,128,847	36,929	642	–	(39,430)	3,760,743
Cost of Sales								
Games	1,122,357	19,577	277,974	19,556	–	–	(208)	1,439,256
Restaurants	–	24,207	–	–	–	–	–	24,207
	1,122,357	43,784	277,974	19,556	–	–	(208)	1,463,463
Gross Profit	690,428	777,186	850,873	17,373	642	–	(39,222)	2,297,280
Operating Expenses								
Operating expenditures (1) (2)	125,953	435,556	36,094	5,580	5,905	33,186	(39,222)	603,052
Depreciation of fixed assets	8,034	40,983	19,687	497	106	10,843	–	80,150
Amortization of patents	–	–	–	–	–	–	–	–
Amortization of deferred charges	–	2,050	133	–	–	–	–	2,183
Interest – Net	–	(840)	(62)	(10)	(9)	13,098	–	12,177
	133,987	477,749	55,852	6,067	6,002	57,127	(39,222)	697,562
Income (Loss) Before the Following Items	556,441	299,437	795,021	11,306	(5,360)	(57,127)	–	1 599,718
Special payments (1)	15,089	4,869	–	8,207	–	–	–	28,165
Goods and Services Tax (1)	17,371	9,598	22,568	471	–	(455)	–	49,553
Québec Sales Tax (1)	19,855	11,003	25,874	540	–	(522)	–	56,750
	52,315	25,470	48,442	9,218	–	(977)	–	134,468
Net Income (Net Loss)	504,126	273,967	746,579	2,088	(5,360)	(56,150)	–	1 465,250

(1) Indirect costs were paid by the Corporate sector and are charged back to other activity sectors in accordance with the extent of their use. An amount of $20.3 million was charged towards the Lotteries sector's results, an amount of $52.2 million was charged to the Casinos sector's results, an amount of $50.4 million was charged to those of the Video Lotteries sector, and $2.1 million to the Bingo sector.

(2) Support provided to participating NPOs was in regard through a compensatory payment equivalent to the Bingo sector's net profit. An amount of $2.1 million is charged back to the Corporate sector.

21. SEGMENTED INFORMATION (CONTINUED)

(in thousands of dollars)

	2003							
ACTIVITY SECTORS	LOTTERIES	CASINOS RESTAURANTS LODGING	VIDEO LOTTERIES	BINGO	MULTIMEDIA	CORPORATE	INTER-COMPANY ELIMINATION	CONSOLIDATED FIGURES
Revenue								
Games	1,834,423	747,463	1,076,943	37,605	927	–	(504)	3,696,857
Restaurants	–	80,714	–	–	–	–	(40,662)	40,052
Lodging	–	12,501	–	–	–	–	–	12,501
	1,834,423	840,678	1,076,943	37,605	927	–	(41,166)	3,749,410
Cost of Sales								
Games	1,112,916	18,737	281,117	19,811	–	–	(504)	1,432,077
Restaurants	–	26,577	–	–	–	–	–	26,577
	1,112,916	45,314	281,117	19,811	–	–	(504)	1,458,654
Gross Profit	721,507	795,364	795,826	17,794	927	–	(40,662)	2,290,756
Operating Expenses								
Operating expenditures (1)	131,949	439,618	40,350	5,416	5,133	36,345	(40,662)	618,149
Depreciation of fixed assets	18,271	45,582	2,600	510	129	10,348	–	77,440
Amortization of patents	–	–	–	–	309	–	–	309
Amortization of deferred charges	–	2,359	–	–	–	–	–	2,359
Interest – Net	–	(625)	(40)	(9)	(8)	8,538	–	7,856
	150,220	486,934	42,910	5,917	5,563	55,231	(40,662)	706,113
Income (Loss) Before the Following Items	571,287	308,430	752,916	11,877	(4,636)	(55,231)	–	1,584,643
Special payments (2)	14,807	4,227	–	8,359	–	(520)	–	26,873
Goods and Services Tax (1)	18,371	10,654	21,950	452	–	666	–	52,093
Québec Sales Tax (1)	20,944	12,214	25,164	518	–	763	–	59,603
	54,122	27,095	47,114	9,329	–	909	–	138,569
Net Income (Net Loss)	517,165	281,335	705,802	2,548	(4,636)	(56,140)	–	1,446,074

(1) Indirect costs were paid by the Corporate sector and are charged back to other activity sectors in accordance with the extent of their use. An amount of $20.0 million was charged towards the Lottery sector's results, an amount of $55.5 million towards the Casino sector's results, an amount of $49.6 million to those of the Video Lottery sector and $2.1 million to the Bingo sector.

(2) Support provided to participating NPOs was increased through a compensatory payment equivalent to the Bingo sector's net profit. An amount of $2.5 million is charged back to the Corporate sector.

COMPARATIVE RESULTS

AS AT MARCH 31

(in thousands of dollars)

	2004	2003	2002	2001	2000
CONSOLIDATED EARNINGS					
Revenue	3,760,743	3,749,410	3,661,786	3,643,212	3,444,225
COST OF SALES					
Lotteries					
Prizes awarded	962,692	953,225	926,308	952,674	913,752
Commissions to retailers	123,595	125,858	123,205	124,705	121,286
Printing of tickets	35,862	33,329	35,031	35,048	30,115
Lotteries Subtotal	1,122,149	1 112,412	1,084,544	1 112,427	1,065,153
Casinos	19,577	18,737	13,721	12,720	1,177
Restaurants	24,207	26,577	21,859	20,177	20,303
Video Lotteries					
Commissions to retailers	276,842	280,007	281,136	315,915	278,522
Printing	1,132	1,110	770	757	703
Video Lotteries Subtotal	277,974	281,117	281,906	316,672	279,225
Bingo					
Prizes awarded	16,734	17,036	17,962	18,600	18,265
Commissions to operators	2,091	2,112	2,208	2,272	2,220
Printing of cards	731	663	439	310	402
Bingo Subtotal	19,556	19,811	20,609	21,182	20,887
Total	1,463,463	1,458,654	1,422,639	1,483,178	1,386,745
Gross Profit	2,297,280	2,290,756	2,239,147	2,160,034	2,057,480
Operating Expenses					
Lotteries	125,953	131,949	124,228	122,689	162,957
Casinos/Restaurants/Lodging	396,334	398,956	353,632	318,788	317,694
Video Lotteries	36,094	40,350	39,790	35,644	36,776
Bingo	5,580	5,416	5,205	5,211	5,299
Multimedia	5,905	5,133	7,061	6,680	4,488
Corporate*	33,186	36,345	40,278	38,730	
Depreciation of fixed assets	80,150	77,440	76,045	77,721	68,044
Amortization of patents		309	308	309	
Amortization of deferred charges	2,183	2,359	1,333	308	308
Interest–Net	12,177	7,856	7,024	7,149	5,863
	697,562	706,113	654,904	613,229	601,429
Income Before the Following Items	1,599,718	1,584,643	1,584,243	1,546,805	1,456,051
Special payments	28,165	26,873	26,321	28,871	25,792
Goods and Services Tax	49,553	52,093	50,916	53,136	48,638
Québec Sales Tax	56,750	59,603	58,527	61,040	55,830
	134,468	138,569	135,764	143,047	130,260
Net Income	1,465,250	1,446,074	1,448,479	1,403,758	1,325,791

* Prior to 2000-2001, the Corporate section was categorized as part of the Lotteries section.

CODE OF ETHICS AND RULES OF PROFESSIONAL CONDUCT

The values outlined in the Corporation's *Code of Ethics and Rules of Professional Conduct*, notably integrity, loyalty and transparency, are values that Loto-Québec has always emphasized and that all senior executives of the Corporation and its subsidiaries are required to respect. During the past fiscal year, the principles of this Code have been fully adhered to by all those to whom it applies.

1. DEFINITIONS

1. In this Code, unless the specific context indicates otherwise:

a) "director" designates a member of the Board of Directors of Loto-Québec or any of its subsidiaries, whether or not working full-time within the Corporation or one of its subsidiaries

b) "Board" designates the Board of Directors of Loto-Québec or any of its subsidiaries

c) "executive" designates any contractual manager whose employment conditions are subject to the approval of the Board

d) "enterprise" designates any form that can be taken by an organization for the production of goods or services or the conducting of any other business of a commercial, industrial or financial nature, or any group seeking to promote certain values, interests or opinions or to exercise an influence on public officials; however, this does not include the Corporation or a non-profit association or group that has no financial link with the Corporation or is not incompatible with the objects of the Corporation

e) "subsidiary" designates a company wholly-owned by Loto-Québec

f) "Act" designates the legislation constituting the Société des loteries du Québec (L.R.Q.c. S-13.1), as amended from time to time

g) "Chairman of the Board" designates the President and Chief Executive Officer of Loto-Québec

h) "Corporation" designates Loto-Québec

2. ETHICAL PRINCIPLES AND GENERAL RULES OF PROFESSIONAL CONDUCT

2.1 This Code applies to the directors and executives of the Corporation and its subsidiaries, who are bound to comply with its provisions.

2.2 A director or executive is appointed to contribute to the achievement of the Corporation's mission in the best interests of Québec. Accordingly, he is expected to use his knowledge, abilities, experience and integrity in a way that will promote the fair and efficient accomplishment of the objectives assigned to the Corporation by the Act and the effective administration of the property it owns as mandatary of the State.

2.3 In the course of performing his duties, a director or executive shall comply with the Corporation's mission and the following objectives:

- Social role: by expanding the ways of sharing the fruit of its operations with the various communities and regions and increasing its activities in the prevention of compulsive gambling
- Integrity and credibility: by demonstrating steadfast vigilance to ensure the integrity, transparency and credibility of the Corporation's activities
- Expansion: by developing new markets through associations and partnerships which will allow the Corporation to considerably enhance the traditional lottery games, casinos and video lotteries it offers
- Competence and expertise: by promoting the development of the skills essential to the Corporation and establishing programs that ensure respect for human resources
- Performance: by offering the best possible entertainment products and services in the lottery, casino, video lottery and bingo sectors, and by increasing the public funds entrusted to it

2.4 A director or executive who, at the request of Loto-Québec or any of its subsidiaries, serves as director, executive or member of another undertaking or company is held to the same standards and obligations.

2.5 In the performance of his duties, a director or executive shall seek to satisfy only the interests of the Corporation, to the exclusion of his own interests or those of others.

2.6 In the performance of his duties, a director is required to comply with the ethical principles and rules of professional conduct prescribed by the *Regulation Respecting the Ethics and Professional Conduct of Public Office Holders* to the extent that they are applicable to him.

3. DUTIES AND OBLIGATIONS OF DIRECTORS AND EXECUTIVES WITH RESPECT TO CONFLICTS OF INTEREST

3.1 Prevention of conflicts of interest

3.1.1 A director or executive shall avoid placing himself into a situation in which his personal interest is in conflict with the duties of his position.

3.1.2 To be applicable under the terms of this Code, the interest held by a director or executive in another enterprise must be such that it is likely to conflict with the performance of his duties within the Corporation or any of its subsidiaries. A director or executive who has an interest in an enterprise is in a situation of "conflict of interest" in the following cases, among others:

- if Loto-Québec or any of its subsidiaries has or is likely to have a significant business relationship with the enterprise, that relationship being significant both for Loto-Québec and for the enterprise
- if the enterprise is a listed company and its business relationship with Loto-Québec or any of its subsidiaries is likely to have an effect on listed shares
- if the interest of the director or executive in the enterprise that has a business relationship with Loto-Québec or any of its subsidiaries is such that it may influence the enterprise's affairs
- if the enterprise has signed a contract with Loto-Québec or any of its subsidiaries and this contract is such that it has an impact on the enterprise's assets
- if the enterprise is awarded a contract for which the director or executive has been involved in the choice of supplier

3.1.3 A director or executive who is party to a contract with Loto-Québec or any of its subsidiaries other than his contract of engagement is also considered to be in conflict of interest.

3.2 Disclosure and abstention

3.2.1 A director or executive who:

a) has a direct or indirect interest in an enterprise that places him in a situation of conflict of interest under section 3.1.2 of this Code; or

b) is party to a contract with the Corporation or a subsidiary under section 3.1.3

shall disclose the nature and extent of his interest in writing to the Chairman of the Board. A director shall also abstain from deliberating or voting on any question linked to this interest and refrain from attempting to influence the related decision. He shall withdraw from the meeting while deliberations and voting on this question continue.

3.2.2 A director or executive shall make the disclosure required in section 3.2.1 as soon as he has knowledge that he is in a conflict of interest under sections 3.1.2 and 3.1.3. In the case of a director, this disclosure of interest shall be recorded in the minutes of the proceedings of the Board of Directors, of which he is a member.

3.2.3 A director or executive shall notify the Chairman of the Board in writing of any rights that he may invoke against the Corporation or any of its subsidiaries, indicating their nature and value, as soon as these rights come into existence or when he acquires knowledge of them.

3.2.4 A director or executive shall also submit an attestation in the form provided to the Chairman of the Board by June 1st of each year in which he remains in office.

3.2.5 The Chairman of the Board submits the attestations referred to by these sections to the Secretary of the Corporation, who keeps them at the disposal of the members of the Board and the executives. These attestations are treated as strictly confidential.

3.3 Waiver

3.3.1 This Code does not apply to:

a) owning securities when the size of the holding is not likely to place the director or executive into a conflict of interest

b) owning an interest by way of a mutual fund in whose management the director or executive plays no direct or indirect role

c) owning interests through a blind trust whose beneficiary may not know its make-up

d) owning a minimum number of shares required to be eligible as director of a corporation

e) an interest which, by its nature and extent, is common to the public at large or a particular sector in which the director or executive operates

f) a directors' liability insurance agreement

g) the owning of shares issued or guaranteed by a government or municipality under the same conditions for everyone

4. EFFECTIVE DATE

4.1 This Code takes effect September 1, 1999.

LANGUAGE POLICY

MAKING QUALITY A TOP PRIORITY

In accordance with the Government's policy on the use of French in public administration, on November 24, 2000, the Corporation adopted a language policy that reflects its business mission and covers the use and quality of French within each of its activity sectors. During the past fiscal year, Loto-Québec collaborated actively with the Office de la langue française to ensure the consistent application of this policy throughout the organization and its subsidiaries.

POLICY FOR THE AWARDING OF CONTRACTS

GOVERNED BY INTEGRITY AND TRANSPARENCY

Loto-Québec's policies and procedures for the awarding of contracts clearly demonstrate the transparency and integrity that govern its purchasing and supplier selection. During the past fiscal year, the Corporation pursued its efforts to harmonize and optimize its practices and processes related to procurement in order to ensure their application within all activity sectors.

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You may also consult the Annual Report on Loto-Québec's Web site at www.loto-quebec.com.

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